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MONTHLY PROJECTIONS
October 1987

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## AFTER THE CRASH

One of the most difficult problems in forecasting is determining when an aberration will be corrected. Through the first nine months of 1987, equity prices appeared to move in only one direction, upward. However, earnings prospects were improving only slowly while interest rates were rising sharply. The valuation model used in our forecast had to be continuously overridden, for it suggested that the Dow should have peaked in the latter part of 1986 at a value only slightly over 2000. This relationship suggested that equity values should have fallen slightly from that level to the vicinity of 1800 by the beginning of the fall. In fact, speculative fervor associated with rumored mergers and acquisitions and the prospects that foreigners might valuate American earnings higher than American investors continued to push the stock market upward. By its peak in August at 2722, the Dow Jones index was nearly 50% higher than predicted by our valuation model. This was the largest percentage valuation distortion during the postwar period.

This dramatic discrepancy between market value and estimates of the fundamental worth of equities indicated that a sharp and abrupt correction probably would develop. However, the trigger that would begin the process of removing inflated value from equities was not readily apparent. In our monthly projections issued September 25, it was noted that "the peak in equity markets is not far away." "Liquidations of stock positions at this time will not deprive investors of significant appreciation opportunities." Yet, as rising interest rates obviously had not deterred equity investors, the adjustment might not occur until earnings prospects began to deteriorate. Such a condition was projected for the second half of 1988, which the markets probably would begin anticipating about the first of the year. In fact, just a little more interest rate burden became the straw that broke the stock market's back.

When the merchandise trade report for August showed a smaller improvement in trade balances than had been expected, investors in the bond market assumed that the dollar would weaken significantly. This, in turn, would create inflationary pressures. Thus, bond prices began sagging significantly in the middle of October. With long-term interest rates rising by nearly a percentage point in less than two weeks, equity investors no longer could ignore what was happening in the bond market. Although program trading obviously accelerated the speed by which the stock market adjusted, a collapse to the price level supported by our fundamental model probably would have developed without aid of computer trading.

Unfortunately, because we were unable to determine when the stock market would adjust downward to more realistic evaluations, we were also unable to determine when consumers would reduce the magnitude of spending they apparently were conducting from gains in asset values. Despite the fact that savings rates were historically low, it was necessary to continue projecting unusually low savings rates until a downward adjustment in equity values was realized. The asset-outlay ratio used in determining consumption behavior continued to remain above normal at 4.4. This meant that savings rates would continue to remain below normal.

However, the asset-outlay ratio that would prevail with a more normal equity evaluation was slightly below normal. If the stock market crashed, as it did in October, consumers would increase their savings in order to readjust their balance sheets. As a result, a period of slightly above normal savings rates can be expected before the end of 1988.

This shift in savings rates from 3% to nearly 6% over the course of twelve months will substantially slow economic activity. However, the adjustments will not occur instantaneously. Indeed, only a small adjustment in savings rates appears to occur during the first quarter following a significant shift in the value of wealth. It is the second and third quarter following the wealth adjustment that leads to the most dramatic changes in savings rates. Thus, consumer spending will be nearly normal during this important Christmas season. Nevertheless, we have reduced our estimates of Christmas sales from an increase of nearly 6% to only a 4.8% gain over previous year levels. In the winter and spring, however, consumer spending should be very modest.

Initially, production schedules are not expected to adjust to the anticipated slowing of consumer outlays. As a result, the fourth quarter will grow nearly the same rate as during the summer months. Even in the winter, production will only gradually decline as involuntary inventories begin growing. By the spring, however, significant restraint in production is anticipated.

Investment expenditures also will be influenced by the stock market crash. At a minimum, the cost of raising equity capital will increase. Despite the fact that interest rates currently are moving downward, this higher cost of raising equity capital will delay the expansion programs of some firms. Orders will be delayed and shipments of durable goods will grow much more slowly than originally anticipated. In short, the stock market crash will, over time, cause both the investment and consumption schedules to shift. The almost decade long imbalance between savings and investment will be reduced.

As a result, interest rates will not climb as they normally do near a cyclical peak. Inflation also will not be as severe as originally anticipated. The stock market crash already appears to be creating some deflationary expectations. In addition, margin requirements have caused some selling on the commodities markets, forcing prices down there. This will result in lower industrial material prices than originally anticipated. In addition, reduced inflationary fears will restrain wage increases. Inflation probably will decline slightly in 1988, instead of rising slightly as previously anticipated.

If the stock market crash is a correction to more fundamental values, as we suspect, there will not be any significant rebound in equity values. Moreover, as the consumption and investment schedules shift, the likelihood of an outright recession increases. Even with some relief in labor and finance charges relative to what otherwise would have been anticipated, the economic slowing caused by these adjustments should lead to a significant slowing of corporate profits. Fundamental support for equity values could deteriorate further. Nevertheless, no dramatic weakening in fundamental equity values is anticipated. If the stock market overreacts on the down side, as it tends to do, bargains could materialize. However, at 1800 on the Dow, the market appears to be appropriately valued rather than undervalued.

Quarterly Profile of GNP

| | 1987-3 | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|
| Real: | 3.8 | 2.0 | 1.0 | 0.8 | 1.4 | 2.7 | 1.6 |
| Price: | 2.4 | 3.8 | 4.1 | 3.0 | 3.3 | 3.0 | 3.4 |
| Nominal: | 6.2 | 5.9 | 5.2 | 3.9 | 4.8 | 5.8 | 5.1 |

Monthly Statistical Highlights for October 1987

Payroll employment +265,000; index of hours worked +1.1%; household employment +684,000; civilian unemployment rate 5.9%; personal income +0.7%; savings rate 4.0%; personal consumption -0.1%; retail sales -1.4%; auto sales 9.4 million units; housing starts -2.9%; housing permits +0.6%; construction expenditures +0.8%; business inventories +0.6%; orders for durable goods -1.2%; orders for nondefense capital goods +0.7%; industrial production +0.3%; CPI +0.3%; PPI +0.1%; consumption deflator +0.4%; leading indicator -1.2%; real GNP (AR) +1.6%; M1(AR) +4.9%; M2(AR) +8.3%.

Monthly Statistical Highlights for November 1987

Payroll employment +178,000; index of hours worked +0.2%; household employment +220,000; civilian unemployment rate 5.8%; personal income +0.5%; savings rate +4.3%; personal consumption +0.1%; retail sales -0.4%; auto sales 9.0 million units; housing starts -4.0%; housing permits -1.7%; construction expenditures -0.6%; business inventories +0.6%; orders for durable goods -1.9%; orders for nondefense capital goods -2.8%; industrial production +0.2%; CPI +0.5%; PPI +0.5%; consumption deflator +0.5%; leading indicator -0.5%; real GNP(AR) +1.9%; M1(AR) +10.0%; M2(AR) +8.1%.

## Commentary

Employment - The coincidence of Labor Day and the employment survey week created several significant distortions. First, the work week was cut by 0.6 hours. Second, fewer teenagers were in the work force than normally occur at this time of year. As a result, the household measure of employment fell significantly. Third, strikes by teachers removed 65,000 from payroll employment. The insured unemployment rate remains at 2.2% although initial unemployment claims have drifted upward from their early September cyclical lows. Excluding striking teachers, payroll employment grew nearly 200,000. Assuming the same rate of growth with the addition of the striking teachers leads to an above normal growth in payroll activity. It should also be noted that despite the unusually low hours worked, a surprisingly large 64% of all industries reported increases in employment.

Personal Income and Outlays - Wage and salary earnings grew stronger than anticipated from the employment report, further underlining the distortions created by the Labor Day survey. An acceleration in wage and salary earnings should be anticipated in October when no distorting effects will be apparent. Rapid growth in interest income in recent months should begin slowing as a result of the flight to liquidity generated by the stock market crash. In addition, weakness in commodity prices should cap the growth in farm income. As expected, tax liabilities accelerated slightly in September because of distortions associated with estimated tax payments. A slowing in the growth of tax liabilities will develop in October. Combined with no growth in outlays, personal savings should climb toward the more than 5% level that now is consistent with current household wealth holdings.

Although sales of furniture and hardware held their own in September, reduced wealth probably will hit these durable goods components hard. In addition, automobile sales are expected to be more sluggish than originally projected. However, another incentive program near the end of the model year has been incorporated into our projections. This explains why durable expenditures next September are slightly above forecasted values despite weakness anticipated in durable outlays through most of the year. Indeed, automobile sales currently are weaker than the projections show and may require some downward revisions for the next few months.

As more mild weather developed, expenditures on services showed surprisingly light growth in September. Service expenditures should increase significantly in October as a result of increased stock market transactions. Then, a significant slowing is anticipated. The surprising weakness in nondurables occurred as a result of relatively poor back-to-school sales. General merchandisers experienced a rare decline in activity for September. Given the lateness of Labor Day, which put all of that weekend's sales into September, the seasonally adjusted decline in retail sales is especially noteworthy. Christmas would have been lackluster even in the absence of stock market weakness. While most of the adjustment in consumer purchases will be in durable goods, some declines in purchases of nondurables and restraint in housing costs associated with services will provide reduced growth in those areas as well.

Construction - Housing starts were surprisingly strong in September as a result of a significant increase in starts in the South. However, permits in the South fell significantly. This suggests that unusually dry weather rather than any shifts in economic fundamentals was responsible for the surge in housing activity. Housing is expected to adjust downward when more normal weather develops. In addition, the stock market trauma probably will delay housing sales into the spring. At that time, lower interest rates than otherwise would have prevailed will begin to stimulate housing activity. Nevertheless, economic uncertainties and lower income gains than originally expected will probably cause housing to recover more slowly in the spring than expected in the forecast. The projected increase in housing permits for October is the result of anticipated temporary increases in multi-family activity.

Hours worked in the construction industry fell especially hard in September, although Labor Day distortions are part of the problem in discerning what really happened to construction expenditures. The August surge in nonresidential construction appears to be temporary and is not the reversal of a declining trend. On the other hand, public construction probably will rebound more slowly than originally anticipated. Moreover, economic uncertainties created by the stock market trauma should cause a continued reduction in nonresidential construction through 1988. Previously, a rebound in that sector was anticipated during the second half of that year.

Business Activity - September's surprising increase in durable goods orders appears to be largely the result of orders for primary metals. As price increases were announced for early October, these orders probably were an attempt to avoid the price increase. As a result, a decline in orders for durable goods should be anticipated in October. Defense orders fell below defense shipments and should begin showing some recovery in the next few months. However, the stock market weakness probably will stretch out some orders, especially for machinery and nondefense capital goods. Although a collapse is not anticipated, nondefense capital shipments should experience only minor increases. Moreover, the backlog is expected to decrease in the second half of 1988, which could lead to a downturn in capital expenditures by the end of that year.

Industrial production is expected to slow significantly early in 1988 to remove excess inventories caused by weak sales. This reduction in activity will prevent capacity utilization from advancing significantly from current levels. As a result, reduced pressures for capital expenditures for expansion purposes will develop.

Retail inventories are expected to expand significantly in the fall as a result of unsold automobiles. Then, weakness in consumer spending on other goods should continue to generate significant inventory accumulation in the spring. Production adjustments then are expected late in the spring and early in the summer to regain control over inventory growth.

Prices - Producer prices in October are especially difficult to determine as a result of the shift in options provided on automobiles. Because of the use of options as standard equipment with higher prices, prices for the automobile fleet appear to be rising between 4% and 6%. However, prices of comparably equipped cars are rising less than 2%. The Bureau of Labor Statistics, which notoriously underprices automobiles, may select a relatively low price. This is one of the reasons why both the CPI and PPI are expected to show very modest gains in October. However, more dramatic increases are expected in November. In addition, the new model cars are not included in the pricing on the CPI until they exceed 50% of dealer sales. Relatively sluggish sales activity in October suggests that few dealers were selling more new model cars than older vehicles. Inflation should then intensify slightly for the remainder of this year before becoming restrained again in the spring of 1988 as oil prices again come under downward pressures. The largest area of price restraint is expected in consumer nondurables, partially as a result of lower grocery store prices than previously anticipated.

Miscellaenous - The Labor Day distortions for the workweek will have an adverse effect on the leading indicators in September. Then, the stock market collapse will remove more than 1.5 percentage points from the leading indicators in October. In addition, as the crash came in the second half of the month, stock price averages probably will be even lower in November than the October averages unless there is a significant rebound in stock prices. The leading indicators could register a fourth consecutive decline in December if housing permits and orders are as weak as currently anticipated.

Although the merchandise trade deficit did not improve as much in August as anticipated, some of the disappointment was the result of special circumstances. Aircraft shipments fell by $500 million, but this especially volatile sector should improve in the months ahead. More significantly, auto parts flowing to Canada were down sharply in August, probably as a result of automobile strikes that were occurring at that time. As production has returned, a rebound in exports to Canada is anticipated. Of course, strikes in Korea and Canada also slowed imports of product into the United States. On the other hand, oil shipments into the United States are above monthly needs. Inventories were being added to hedge against turmoil in the Persian Gulf. Significant improvement in the trade balances should be anticipated in September.

## Financial Markets

When the stock market crashed, the Federal Reserve responded by providing liquidity to the financial system. Unfortunately, some of that liquidity spilled across the borders and put downward pressure upon the dollar. Initially, the dollar weakness implied by Federal Reserve strategy was ignored by the bond market. Instead, bonds were absorbing funds from investors fleeing the stock market. However, the dollar's weakness is now becoming readily apparent, preventing further improvement in bond prices. The Federal Reserve is expected to resolve this dilemma by opting for increased liquidity in the United States despite further dollar weakness.

Fortunately, the inflationary fears that rapid liquidity normally would generate are not likely at this time. Much of the liquidity is required to provide reserves for banks who are receiving dramatic surges in checkable deposits. Failure to meet this reserve need would unduly reduce economic transactions. However, high liquidity needs probably will not continue indefinitely. Therefore, the Federal Reserve probably will engage in some liquidity draining after stability returns to the financial markets. For that reason, interest rates are expected to move upward slightly during the remainder of the fall before weaker economic activity leads to declining interest rates in the winter.

Rapid growth in the monetary aggregates does not constitute significant monetary stimulus. Rather, there has been a significant increase in liquidity demand that requires more rapid money growth to provide the same support for economic transactions as a much smaller rate of growth would have provided in the absence of this liquidity need.

The major contributor to declining interest rates will be the shift in consumer savings. This will evolve over the next twelve months and, therefore, does not justify the current dramatic downward move in interest rates. Indeed, corporate borrowings will probably increase slightly as unanticipated inventory investment occurs in the fall and winter months.

Of course, any meaningful reduction in government borrowings will improve the interest rate outlook. However, the current initiative between the President and Congress really is over how an already-determined $23 billion reduction in the deficit should be accomplished. Less than meets the eye will be accomplished from these discussions unless the amount of deficit reduction is increased to the $30-$35 billion vicinity.

While the dollar is falling in value, foreign investors may back away from the U.S. economy. This could momentarily cause a larger surge in interest rates than currently anticipated. However, economic weakness expected from the fallout of the stock market plunge will lower rates again by the middle of 1988.

Equity Markets - As mentioned above, our valuation models suggest that a Dow near 1800 probably is appropriate for current earnings expectations and interest rate environment. Of course, if the anticipated recession is deeper than currently contemplated, lower stock values would be necessary. On the other hand, if interest rates fall further, equity values could rebound. However, a return to 2700 on the Dow should not be anticipated.

Moreover, a change in the characteristics of the cycle caused by the stock market crash should alter portfolio decisions. Some interest-sensitive stocks, especially utilities, should receive increased favor. On the other hand, some of the cyclical issues that appeared to have profit potential in early 1988, may now not have very good prospects. On the whole, the stock market probably will overadjust to the downside before gradually rebuilding in 1988. Only when the depths of the next recession are apparent will the market advance significantly.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 101598 | 101598 | 119.6 | 119.6 | 111835 | 111835 | 6.3 | 6.3 | 172.6 | 172.6 |
| May | 101672 | 101708 | 120.2 | 120.2 | 112447 | 112447 | 6.3 | 6.3 | 172.7 | 172.9 |
| June | 101788 | 101818 | 120.1 | 120.0 | 112257 | 112257 | 6.1 | 6.1 | 173.1 | 172.9 |
| July | 101973 | 102126 | 120.4 | 120.6 | 112462 | 112727 | 6.2 | 6.0 | 173.5 | 173.2 |
| August | 102150 | 102278 | 120.6 | 121.2 | 112653 | 113081 | 6.1 | 6.0 | 173.9 | 174.1 |
| September | 102327 | 102410 | 120.9 | 120.2 | 113171 | 112772 | 6.2 | 5.9 | 174.5 | 174.7 |
| October | 102485 | 102685* | 120.9 | 121.5* | 113029 | 113456* | 6.3 | 5.9* | 174.7 | 175.2* |
| November | 102628 | 102863 | 121.0 | 121.7 | 113292 | 113658 | 6.3 | 5.8 | 175.0 | 175.6 |
| December | 102771 | 103016 | 121.2 | 121.9 | 113556 | 113837 | 6.2 | 5.8 | 175.2 | 176.1 |
| January 1988 | 102965 | 103212 | 121.4 | 122.1 | 113769 | 114096 | 6.2 | 5.7 | 175.8 | 176.6 |
| February | 103163 | 103368 | 121.7 | 122.2 | 113970 | 114249 | 6.2 | 5.7 | 176.6 | 177.2 |
| March | 103360 | 103479 | 122.1 | 122.3 | 114173 | 114401 | 6.1 | 5.8 | 177.4 | 177.9 |
| April | 103526 | 103625 | 122.2 | 122.5 | 114388 | 114616 | 6.2 | 5.8 | 177.8 | 178.6 |
| May | 103693 | 103811 | 122.4 | 122.7 | 114595 | 114803 | 6.2 | 5.8 | 178.3 | 179.3 |
| June | 103860 | 103962 | 122.5 | 122.9 | 114804 | 114966 | 6.1 | 5.8 | 178.9 | 180.0 |
| July | 104051 | 104086 | 122.7 | 123.0 | 114992 | 115092 | 6.1 | 5.9 | 179.5 | 180.5 |
| August | 104225 | 104211 | 123.0 | 123.1 | 115134 | 115272 | 6.0 | 5.9 | 180.1 | 181.0 |
| September | 104400 | 104339 | 123.3 | 123.2 | 115276 | 115345 | 6.1 | 6.0 | 180.7 | 181.4 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 3.700 | 3.704 | 2.182 | 2.182 | 32.9 | 42.3 | 3.067 | 3.070 | 3.034 | 3.028 |
| May | 3.718 | 3.713 | 2.193 | 2.194 | 146.4 | 136.7 | 3.176 | 3.171 | 3.030 | 3.035 |
| June | 3.731 | 3.715 | 2.201 | 2.199 | 122.3 | 101.1 | 3.173 | 3.157 | 3.050 | 3.056 |
| July | 3.749 | 3.737 | 2.211 | 2.210 | 122.8 | 107.0 | 3.190 | 3.176 | 3.067 | 3.069 |
| August | 3.765 | 3.758 | 2.220 | 2.229 | 119.5 | 70.2 | 3.204 | 3.192 | 3.085 | 3.122 |
| September | 3.782 | 3.784 | 2.228 | 2.242 | 99.3 | 106.6 | 3.220 | 3.213 | 3.121 | 3.106 |
| October | 3.795 | 3.809* | 2.236 | 2.258* | 111.2 | 130.9* | 3.229 | 3.234* | 3.118 | 3.103* |
| November | 3.809 | 3.828 | 2.244 | 2.268 | 105.0 | 140.5 | 3.238 | 3.249 | 3.133 | 3.108 |
| December | 3.825 | 3.846 | 2.252 | 2.280 | 100.8 | 139.6 | 3.249 | 3.262 | 3.148 | 3.122 |
| January 1988 | 3.834 | 3.860 | 2.265 | 2.291 | 128.7 | 167.8 | 3.296 | 3.305 | 3.167 | 3.137 |
| February | 3.855 | 3.876 | 2.277 | 2.303 | 124.9 | 166.9 | 3.308 | 3.323 | 3.183 | 3.156 |
| March | 3.886 | 3.895 | 2.290 | 2.315 | 111.7 | 162.5 | 3.315 | 3.337 | 3.203 | 3.175 |
| April | 3.907 | 3.918 | 2.301 | 2.330 | 117.3 | 170.5 | 3.336 | 3.356 | 3.219 | 3.185 |
| May | 3.919 | 3.941 | 2.313 | 2.344 | 121.3 | 174.3 | 3.353 | 3.374 | 3.232 | 3.200 |
| June | 3.931 | 3.964 | 2.325 | 2.359 | 122.7 | 176.1 | 3.370 | 3.392 | 3.247 | 3.216 |
| July | 3.955 | 3.981 | 2.337 | 2.368 | 120.1 | 170.1 | 3.383 | 3.404 | 3.263 | 3.234 |
| August | 3.978 | 3.999 | 2.349 | 2.378 | 112.8 | 159.5 | 3.397 | 3.418 | 3.284 | 3.258 |
| September | 4.001 | 4.015 | 2.361 | 2.386 | 109.2 | 157.7 | 3.411 | 3.429 | 3.302 | 3.271 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 2939.7 | 2933.8 | 411.6 | 408.1 | 979.3 | 976.8 | 1548.8 | 1548.9 | 2497.0 | 2488.1 |
| May | 2935.9 | 2940.6 | 403.8 | 402.3 | 977.3 | 983.4 | 1554.7 | 1555.0 | 2481.2 | 2482.1 |
| June | 2956.3 | 2961.8 | 413.6 | 415.8 | 974.4 | 985.6 | 1568.3 | 1560.4 | 2487.9 | 2493.9 |
| July | 2973.2 | 2974.5 | 414.3 | 417.1 | 979.5 | 984.6 | 1579.4 | 1572.7 | 2492.2 | 2501.9 |
| August | 2990.1 | 3026.3 | 412.8 | 447.4 | 988.3 | 991.9 | 1589.0 | 1587.0 | 2498.0 | 2534.8 |
| September | 3025.9 | 3010.2 | 429.6 | 433.3 | 997.7 | 987.7 | 1598.6 | 1589.3 | 2521.6 | 2514.3* |
| October | 3022.6 | 3006.6* | 415.5 | 415.1* | 1000.6 | 992.3* | 1606.5 | 1599.2* | 2510.5 | 2500.7 |
| November | 3037.5 | 3010.9 | 419.4 | 408.2 | 1002.6 | 995.3 | 1615.5 | 1607.4 | 2516.6 | 2492.1 |
| December | 3052.4 | 3024.8 | 423.4 | 410.9 | 1004.7 | 998.0 | 1624.3 | 1615.9 | 2522.6 | 2495.7 |
| January 1988 | 3071.3 | 3039.2 | 425.8 | 412.6 | 1010.6 | 1002.0 | 1634.9 | 1624.6 | 2527.8 | 2498.3 |
| February | 3087.0 | 3057.8 | 422.7 | 418.2 | 1018.9 | 1006.1 | 1645.4 | 1633.5 | 2532.4 | 2505.2 |
| March | 3107.3 | 3075.9 | 424.4 | 422.6 | 1026.9 | 1011.5 | 1656.0 | 1641.8 | 2538.6 | 2511.5 |
| April | 3122.3 | 3086.1 | 427.1 | 419.2 | 1030.4 | 1016.0 | 1664.8 | 1650.9 | 2540.5 | 2511.9 |
| May | 3135.0 | 3100.4 | 427.5 | 422.8 | 1033.6 | 1018.0 | 1673.9 | 1659.6 | 2542.6 | 2515.0 |
| June | 3152.8 | 3116.3 | 433.0 | 423.9 | 1036.8 | 1022.2 | 1683.0 | 1670.2 | 2548.7 | 2520.4 |
| July | 3170.9 | 3133.9 | 433.8 | 426.4 | 1042.5 | 1027.4 | 1694.6 | 1680.1 | 2553.1 | 2526.9 |
| August | 3186.7 | 3157.7 | 432.5 | 437.1 | 1048.3 | 1030.8 | 1705.9 | 1689.8 | 2555.5 | 2538.5 |
| September | 3204.0 | 3170.6 | 432.7 | 433.7 | 1054.1 | 1036.5 | 1717.2 | 1700.4 | 2561.2 | 2539.2 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 124.96 | 124.96 | 20.03 | 20.03 | 10.4 | 10.5 | 76.83 | 76.83 | 28.10 | 28.10 |
| May | 124.55 | 124.87 | 20.07 | 20.00 | 9.7 | 9.9 | 76.86 | 77.08 | 27.61 | 27.78 |
| June | 125.08 | 126.62 | 19.98 | 20.05 | 10.2 | 10.2 | 76.97 | 77.54 | 28.13 | 29.04 |
| July | 125.60 | 127.06 | 20.30 | 20.30 | 10.2 | 10.5 | 77.08 | 77.33 | 28.22 | 29.44 |
| August | 126.12 | 129.27 | 20.19 | 20.18 | 10.1 | 12.4 | 77.78 | 77.98 | 28.15 | 31.11 |
| September | 128.83 | 128.76 | 20.07 | 20.17 | 11.0 | 10.1 | 78.52 | 77.93 | 30.24 | 30.66 |
| October | 127.33 | 126.98* | 20.27 | 20.26* | 9.6 | 9.4* | 79.17 | 78.29* | 27.89 | 28.43* |
| November | 128.01 | 126.41 | 20.34 | 20.20 | 10.0 | 9.0 | 78.90 | 78.53 | 28.77 | 27.68 |
| December | 129.15 | 126.94 | 20.02 | 20.07 | 10.5 | 9.3 | 79.07 | 78.74 | 30.06 | 28.13 |
| January 1988 | 129.39 | 127.46 | 20.02 | 19.88 | 10.4 | 9.6 | 79.53 | 79.06 | 29.84 | 28.52 |
| February | 129.68 | 128.44 | 19.94 | 19.93 | 10.2 | 9.9 | 80.18 | 79.38 | 29.56 | 29.13 |
| March | 130.51 | 129.39 | 19.97 | 19.98 | 10.3 | 10.1 | 80.81 | 79.81 | 29.73 | 29.60 |
| April | 131.10 | 129.34 | 20.09 | 19.92 | 10.4 | 9.8 | 81.09 | 80.16 | 29.92 | 29.26 |
| May | 131.40 | 129.92 | 20.08 | 19.95 | 10.4 | 10.0 | 81.34 | 80.32 | 29.98 | 29.65 |
| June | 132.30 | 130.38 | 20.52 | 19.90 | 10.5 | 10.1 | 81.59 | 80.65 | 30.19 | 29.83 |
| July | 132.84 | 131.08 | 20.75 | 19.96 | 10.4 | 10.2 | 82.04 | 81.06 | 30.05 | 30.06 |
| August | 133.15 | 132.60 | 20.69 | 20.04 | 10.3 | 10.8 | 82.50 | 81.33 | 29.96 | 31.23 |
| September | 133.62 | 132.66 | 20.65 | 20.11 | 10.3 | 10.5 | 82.95 | 81.78 | 30.02 | 30.77 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 1.686 | 1.643 | 1.238 | 1.208 | 1.586 | 1.598 | 397.3 | 396.2 | 349.2 | 348.2 |
| May | 1.598 | 1.606 | 1.115 | 1.130 | 1.487 | 1.493 | 398.6 | 396.7 | 349.6 | 347.7 |
| June | 1.552 | 1.586 | 1.067 | 1.088 | 1.469 | 1.517 | 394.0 | 393.9 | 345.0 | 344.0 |
| July | 1.588 | 1.598 | 1.103 | 1.143 | 1.503 | 1.487 | 391.9 | 393.4 | 342.0 | 341.1 |
| August | 1.611 | 1.598 | 1.122 | 1.111 | 1.516 | 1.502 | 393.5 | 399.6 | 341.9 | 345.6 |
| September | 1.620 | 1.669 | 1.126 | 1.168 | 1.528 | 1.493 | 395.6 | 396.6* | 342.5 | 341.9* |
| October | 1.618 | 1.620* | 1.134 | 1.121* | 1.511 | 1.502* | 395.2 | 399.7 | 341.3 | 343.4 |
| November | 1.629 | 1.555 | 1.143 | 1.072 | 1.515 | 1.476 | 395.2 | 397.3 | 340.4 | 340.2 |
| December | 1.621 | 1.523 | 1.130 | 1.051 | 1.501 | 1.419 | 394.8 | 396.4 | 338.9 | 338.2 |
| January 1988 | 1.583 | 1.521 | 1.108 | 1.062 | 1.492 | 1.422 | 396.9 | 390.4 | 339.8 | 332.3 |
| February | 1.560 | 1.471 | 1.083 | 1.009 | 1.467 | 1.376 | 399.0 | 388.6 | 340.7 | 329.9 |
| March | 1.552 | 1.477 | 1.086 | 1.017 | 1.473 | 1.359 | 401.3 | 387.5 | 341.5 | 328.1 |
| April | 1.588 | 1.474 | 1.115 | 1.003 | 1.489 | 1.365 | 401.9 | 387.7 | 341.2 | 327.3 |
| May | 1.609 | 1.471 | 1.139 | 0.998 | 1.521 | 1.368 | 403.4 | 389.8 | 341.6 | 327.8 |
| June | 1.608 | 1.482 | 1.130 | 1.006 | 1.518 | 1.379 | 404.9 | 389.8 | 341.7 | 326.7 |
| July | 1.589 | 1.493 | 1.116 | 1.020 | 1.493 | 1.384 | 409.4 | 391.0 | 344.3 | 326.9 |
| August | 1.595 | 1.511 | 1.102 | 1.023 | 1.498 | 1.426 | 412.0 | 392.2 | 345.3 | 326.8 |
| September | 1.592 | 1.519 | 1.104 | 1.029 | 1.492 | 1.429 | 414.1 | 394.1 | 346.2 | 327.6 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 121.4 | 121.0 | 76.7 | 75.7 | 199.2 | 199.5 |
| May | 123.8 | 125.5 | 75.8 | 75.3 | 198.9 | 195.9 |
| June | 123.0 | 120.1 | 76.1 | 72.9 | 194.9 | 200.9 |
| July | 122.3 | 121.7 | 77.0 | 73.8 | 192.6 | 197.9 |
| August | 122.0 | 124.5 | 77.8 | 74.5 | 193.7 | 200.6 |
| September | 122.0 | 121.5* | 78.7 | 75.0* | 194.9 | 200.1* |
| October | 121.7 | 121.8 | 78.0 | 75.0 | 195.5 | 202.9 |
| November | 121.4 | 121.1 | 77.8 | 75.3 | 196.0 | 200.9 |
| December | 121.1 | 119.6 | 77.5 | 75.9 | 196.2 | 198.7 |
| January 1988 | 121.4 | 119.3 | 78.8 | 76.2 | 196.7 | 194.9 |
| February | 121.6 | 119.8 | 80.1 | 76.5 | 197.3 | 192.3 |
| March | 121.9 | 120.2 | 81.5 | 76.9 | 197.9 | 190.4 |
| April | 122.5 | 120.9 | 80.7 | 77.3 | 198.7 | 189.6 |
| May | 122.8 | 121.4 | 81.1 | 77.6 | 199.5 | 189.3 |
| June | 123.2 | 121.9 | 81.5 | 77.5 | 200.2 | 190.4 |
| July | 123.8 | 121.3 | 81.9 | 78.0 | 203.7 | 191.7 |
| August | 124.4 | 120.7 | 82.1 | 78.4 | 205.5 | 193.1 |
| September | 125.1 | 120.5 | 82.4 | 78.8 | 206.6 | 194.8 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 320.8 | 320.8 | 106.93 | 106.98 | 28.30 | 28.31 | 27.33 | 27.32 |
| May | 321.5 | 321.8 | 106.98 | 106.99 | 29.99 | 30.03 | 26.95 | 26.97 |
| June | 321.4 | 321.6 | 108.53 | 109.18 | 29.09 | 29.99 | 27.61 | 27.85 |
| July | 321.9 | 323.3 | 109.24 | 109.17 | 29.93 | 31.98 | 27.53 | 28.10 |
| August | 322.5 | 325.1 | 107.65 | 106.62 | 28.65 | 29.52 | 27.65 | 28.47 |
| September | 322.9 | 326.1* | 105.46 | 107.80 | 27.84 | 29.15 | 27.79 | 29.12 |
| October | 323.6 | 327.5 | 105.93 | 106.53* | 27.95 | 29.36* | 27.85 | 29.16* |
| November | 324.3 | 328.9 | 106.81 | 104.49 | 28.13 | 28.53 | 27.96 | 29.24 |
| December | 324.8 | 330.1 | 107.16 | 103.66 | 28.42 | 28.29 | 28.33 | 29.53 |
| January 1988 | 325.3 | 330.9 | 107.03 | 104.75 | 28.06 | 28.36 | 27.46 | 28.31 |
| February | 326.0 | 331.8 | 107.42 | 105.23 | 28.31 | 28.51 | 27.83 | 28.65 |
| March | 326.9 | 332.5 | 107.95 | 105.50 | 28.59 | 28.59 | 28.21 | 28.82 |
| April | 328.1 | 333.0 | 106.64 | 105.16 | 28.47 | 28.36 | 28.25 | 28.80 |
| May | 329.0 | 333.6 | 106.93 | 105.93 | 28.53 | 28.43 | 28.33 | 28.89 |
| June | 329.3 | 334.3 | 107.72 | 104.85 | 28.69 | 28.25 | 28.24 | 28.75 |
| July | 330.0 | 334.8 | 107.59 | 105.67 | 28.75 | 28.49 | 28.43 | 28.93 |
| August | 331.4 | 335.4 | 108.86 | 106.39 | 28.89 | 28.66 | 28.55 | 29.02 |
| September | 331.8 | 335.9 | 109.43 | 106.82 | 29.06 | 28.79 | 28.72 | 29.16 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 665.9 | 665.9 | 8.76 | 8.76 | 127.3 | 127.4 | 79.4 | 79.6 |
| May | 670.4 | 671.6 | 9.23 | 9.24 | 128.0 | 128.2 | 79.7 | 79.9 |
| June | 669.2 | 674.8 | 9.36 | 9.44 | 128.2 | 129.1 | 79.7 | 80.3 |
| July | 673.4 | 677.7 | 9.45 | 8.91 | 128.7 | 130.6 | 79.9 | 81.1 |
| August | 677.5 | 678.8 | 9.36 | 8.80 | 129.0 | 131.0 | 80.0 | 81.2 |
| September | 678.1 | 682.2* | 9.40 | 9.53 | 129.3 | 131.2 | 80.0 | 81.2 |
| October | 682.5 | 686.3 | 9.46 | 9.26* | 129.6 | 131.6* | 80.1 | 81.3* |
| November | 685.3 | 690.4 | 9.55 | 9.33 | 129.8 | 131.9 | 80.1 | 81.3 |
| December | 687.4 | 693.3 | 9.63 | 9.48 | 130.1 | 132.2 | 80.1 | 81.4 |
| January 1988 | 691.5 | 696.1 | 9.69 | 9.63 | 130.4 | 132.5 | 80.1 | 81.5 |
| February | 694.3 | 698.4 | 9.76 | 9.68 | 130.9 | 132.6 | 80.3 | 81.3 |
| March | 696.1 | 700.7 | 9.77 | 9.74 | 131.3 | 132.6 | 80.4 | 81.0 |
| April | 699.2 | 703.5 | 9.83 | 9.70 | 131.6 | 132.8 | 80.4 | 81.0 |
| May | 702.5 | 705.8 | 9.89 | 9.79 | 132.0 | 133.1 | 80.5 | 81.0 |
| June | 704.6 | 707.4 | 9.95 | 9.88 | 132.4 | 133.4 | 80.6 | 81.0 |
| July | 707.8 | 710.1 | 10.03 | 9.95 | 132.8 | 133.5 | 80.7 | 80.9 |
| August | 709.6 | 711.4 | 10.09 | 9.82 | 133.2 | 133.5 | 80.9 | 80.7 |
| September | 712.9 | 714.3 | 10.15 | 10.23 | 133.6 | 133.4 | 81.0 | 80.4 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 337.9 | 337.9 | 295.3 | 295.3 | 317.4 | 317.3 | 116.9 | 116.7 |
| May | 339.0 | 339.0 | 296.2 | 296.2 | 318.6 | 318.6 | 117.2 | 117.2 |
| June | 340.4 | 340.2 | 296.8 | 296.9 | 320.2 | 320.2 | 117.6 | 117.5 |
| July | 341.2 | 341.0 | 296.7 | 297.4 | 321.8 | 322.6 | 118.0 | 117.6 |
| August | 342.5 | 342.7 | 297.3 | 297.3 | 322.6 | 323.0 | 118.4 | 117.8 |
| September | 343.8 | 343.4 | 298.0 | 298.2 | 321.0 | 322.4 | 118.8 | 118.1 |
| October | 344.6 | 344.4* | 298.5 | 298.5* | 323.1 | 324.9* | 119.0 | 118.5* |
| November | 345.5 | 346.1 | 299.1 | 300.1 | 323.6 | 325.7 | 119.3 | 118.9 |
| December | 346.4 | 347.3 | 299.5 | 301.0 | 324.2 | 326.8 | 119.6 | 119.3 |
| January 1988 | 347.6 | 348.7 | 300.1 | 302.2 | 325.8 | 328.0 | 120.0 | 119.7 |
| February | 348.7 | 349.9 | 300.6 | 303.0 | 327.6 | 329.7 | 120.5 | 120.1 |
| March | 349.9 | 351.1 | 301.2 | 303.9 | 329.3 | 330.5 | 120.9 | 120.4 |
| April | 351.4 | 352.3 | 302.5 | 304.6 | 330.5 | 331.2 | 121.3 | 120.7 |
| May | 353.0 | 353.4 | 303.8 | 305.2 | 331.0 | 331.9 | 121.7 | 121.0 |
| June | 354.6 | 354.6 | 304.1 | 305.8 | 331.5 | 332.7 | 122.1 | 121.4 |
| July | 356.0 | 355.7 | 305.5 | 306.4 | 333.9 | 333.9 | 122.5 | 121.7 |
| August | 357.1 | 356.9 | 305.8 | 307.2 | 335.0 | 335.4 | 123.0 | 122.0 |
| September | 358.3 | 358.1 | 306.3 | 308.0 | 333.7 | 334.0 | 123.4 | 122.4 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 117.7 | 117.9 | 106.0 | 105.9 | 111.1 | 111.2 | 126.2 | 126.5 | 113.8 | 113.8 |
| May | 118.3 | 118.5 | 105.9 | 105.9 | 111.8 | 111.8 | 126.8 | 127.2 | 114.0 | 114.1 |
| June | 118.8 | 118.8 | 106.2 | 106.6 | 112.4 | 112.2 | 127.3 | 127.3 | 114.2 | 114.5 |
| July | 119.3 | 118.9 | 106.6 | 106.6 | 112.8 | 112.1 | 127.8 | 127.6 | 114.6 | 115.3 |
| August | 119.7 | 119.4 | 107.0 | 107.5 | 113.2 | 112.6 | 128.2 | 128.2 | 115.1 | 115.6 |
| September | 120.0 | 119.7* | 107.3 | 107.7* | 113.5 | 112.9* | 128.6 | 128.7* | 115.5 | 116.0* |
| October | 120.4 | 120.2 | 107.3 | 108.2 | 113.8 | 113.2 | 129.0 | 129.2 | 115.8 | 116.4 |
| November | 120.7 | 120.8 | 107.4 | 108.6 | 114.1 | 113.5 | 129.5 | 129.7 | 116.1 | 116.8 |
| December | 121.0 | 121.2 | 107.5 | 108.8 | 114.4 | 113.8 | 130.0 | 130.2 | 116.5 | 117.2 |
| January 1988 | 121.5 | 121.6 | 107.8 | 108.9 | 114.8 | 114.2 | 130.5 | 130.8 | 116.8 | 117.5 |
| February | 121.9 | 122.1 | 108.0 | 109.1 | 115.1 | 114.5 | 131.0 | 131.4 | 117.1 | 117.8 |
| March | 122.4 | 122.5 | 108.2 | 109.3 | 115.4 | 114.8 | 131.5 | 132.0 | 117.5 | 118.1 |
| April | 122.9 | 122.9 | 108.5 | 109.4 | 115.9 | 115.1 | 132.0 | 132.5 | 117.8 | 118.5 |
| May | 123.3 | 123.3 | 108.8 | 109.6 | 116.4 | 115.5 | 132.6 | 133.0 | 118.1 | 118.9 |
| June | 123.7 | 123.6 | 109.1 | 109.7 | 116.8 | 115.9 | 133.2 | 133.4 | 118.5 | 119.3 |
| July | 124.2 | 124.0 | 109.4 | 109.9 | 117.3 | 116.2 | 133.8 | 133.9 | 118.9 | 119.6 |
| August | 124.7 | 124.4 | 109.6 | 110.0 | 117.8 | 116.5 | 134.3 | 134.5 | 119.3 | 120.0 |
| September | 125.1 | 124.9 | 109.9 | 110.3 | 118.2 | 116.8 | 134.7 | 135.1 | 119.6 | 120.3 |

Fore. = August Forecast

C.E. = Current Expectations

* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | -13.32 | -13.32 | 186.6 | 187.9 | 4420 | 4410 | 3781 | 3779 | -15.9 | -18.3 |
| May | -14.40 | -14.04 | 187.5 | 188.9 | 4452 | 4453 | 3799 | 3799 | -20.3 | -21.9 |
| June | -14.00 | -15.71 | 188.0 | 190.8 | 4474 | 4472 | 3804 | 3806 | -22.9 | -24.3 |
| July | -14.63 | -16.47 | 188.6 | 191.4 | 4502 | 4487 | 3815 | 3815 | -16.3 | -17.6 |
| August | -14.27 | -15.67 | 188.9 | 192.6 | 4524 | 4516 | 3821 | 3834 | -10.5 | -13.9 |
| September | -13.60 | -14.53* | 189.4 | 192.0* | 4546 | 4535 | 3827 | 3840 | -7.4 | -10.5 |
| October | -12.96 | -13.96 | 189.0 | 189.7 | 4563 | 4556 | 3834 | 3845 | -9.5 | -11.3 |
| November | -13.55 | -14.48 | 188.6 | 188.8 | 4575 | 4579 | 3835 | 3851 | -13.4 | -9.6 |
| December | -13.73 | -14.89 | 189.1 | 186.9 | 4594 | 4599 | 3841 | 3855 | -15.5 | -9.2 |
| January 1988 | -13.26 | -14.73 | 188.7 | 187.5 | 4622 | 4616 | 3852 | 3856 | -16.2 | -10.4 |
| February | -12.43 | -14.26 | 188.2 | 188.2 | 4657 | 4636 | 3865 | 3860 | -17.1 | -10.9 |
| March | -11.86 | -13.98 | 187.8 | 188.4 | 4680 | 4652 | 3871 | 3864 | -17.1 | -12.2 |
| April | -12.24 | -14.13 | 187.2 | 188.0 | 4701 | 4665 | 3876 | 3865 | -16.3 | -10.5 |
| May | -12.85 | -13.65 | 188.0 | 188.6 | 4735 | 4682 | 3891 | 3869 | -15.4 | -9.3 |
| June | -12.76 | -13.27 | 188.3 | 188.2 | 4771 | 4697 | 3907 | 3869 | -14.5 | -7.6 |
| July | -13.56 | -13.54 | 188.9 | 188.4 | 4795 | 4718 | 3914 | 3877 | -13.9 | -7.5 |
| August | -13.02 | -13.21 | 189.2 | 188.7 | 4816 | 4736 | 3915 | 3882 | -13.2 | -9.3 |
| September | -11.90 | -12.86 | 189.3 | 188.5 | 4838 | 4755 | 3921 | 3885 | -13.5 | -11.8 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 262.2 | 261.6 | 750.4 | 750.3 | 2839.1 | 2839.9 | 6.37 | 6.37 | 5.90 | 5.90 |
| May | 263.4 | 263.6 | 753.2 | 753.1 | 2840.1 | 2840.7 | 6.85 | 6.85 | 6.05 | 6.05 |
| June | 263.8 | 263.9 | 746.7 | 746.5 | 2842.8 | 2842.3 | 6.73 | 6.73 | 5.99 | 5.99 |
| July | 264.4 | 264.0 | 748.5 | 747.6 | 2854.3 | 2848.4 | 6.56 | 6.58 | 5.88 | 5.76 |
| August | 265.5 | 266.3 | 750.6 | 750.9 | 2868.1 | 2860.1 | 6.65 | 6.73 | 5.80 | 6.15 |
| September | 266.7 | 267.4 | 752.9 | 751.1 | 2881.8 | 2874.6 | 6.68 | 7.22 | 5.83 | 6.64 |
| October | 268.9 | 268.5* | 758.4 | 754.1* | 2898.3 | 2893.8* | 6.73 | 7.36* | 5.86 | 6.13* |
| November | 270.8 | 270.4 | 763.1 | 760.1 | 2913.6 | 2912.7 | 6.70 | 7.02 | 5.93 | 6.02 |
| December | 272.6 | 272.1 | 767.9 | 766.0 | 2925.7 | 2933.1 | 6.59 | 6.84 | 6.02 | 5.84 |
| January 1988 | 274.5 | 273.6 | 773.5 | 771.0 | 2948.2 | 2952.2 | 6.43 | 6.47 | 5.79 | 5.67 |
| February | 276.4 | 275.1 | 779.4 | 776.1 | 2967.5 | 2969.7 | 6.34 | 6.39 | 5.70 | 5.56 |
| March | 278.3 | 276.7 | 785.5 | 780.3 | 2986.6 | 2990.5 | 6.25 | 6.42 | 5.65 | 5.64 |
| April | 280.0 | 278.2 | 790.3 | 784.5 | 3003.5 | 3007.6 | 6.38 | 6.46 | 5.88 | 5.68 |
| May | 281.7 | 280.3 | 796.1 | 789.9 | 3020.2 | 3027.3 | 6.69 | 6.51 | 6.01 | 5.71 |
| June | 283.4 | 282.4 | 801.8 | 796.4 | 3036.9 | 3051.2 | 6.94 | 6.55 | 6.13 | 5.76 |
| July | 285.1 | 284.6 | 805.2 | 803.4 | 3054.5 | 3074.0 | 6.73 | 6.43 | 6.08 | 5.59 |
| August | 286.8 | 286.3 | 809.1 | 808.8 | 3072.4 | 3092.4 | 6.56 | 6.29 | 5.93 | 5.42 |
| September | 288.5 | 288.2 | 813.0 | 814.2 | 3090.1 | 3111.0 | 6.57 | 6.02 | 5.80 | 5.36 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1987 | 8.85 | 8.85 | 7.55 | 7.55 | 6.45 | 6.45 | 6.52 | 6.52 | 7.75 | 7.75 |
| May | 9.33 | 9.33 | 8.00 | 8.00 | 6.93 | 6.93 | 6.99 | 6.99 | 8.14 | 8.14 |
| June | 9.32 | 9.32 | 7.79 | 7.79 | 6.92 | 6.92 | 6.94 | 6.94 | 8.25 | 8.25 |
| July | 9.42 | 9.42 | 7.68 | 7.72 | 6.67 | 6.65 | 6.75 | 6.70 | 8.25 | 8.25 |
| August | 9.50 | 9.67 | 7.74 | 7.82 | 6.65 | 6.71 | 6.73 | 6.75 | 8.25 | 8.25 |
| September | 9.50 | 10.18 | 7.70 | 8.26 | 6.73 | 7.37 | 6.84 | 7.37 | 8.25 | 8.70 |
| October | 9.59 | 10.66* | 7.82 | 8.64* | 6.78 | 7.26* | 6.89 | 7.38* | 8.25 | 9.03* |
| November | 9.57 | 10.22 | 7.77 | 8.27 | 6.75 | 6.88 | 6.83 | 7.00 | 8.25 | 8.84 |
| December | 9.54 | 9.87 | 7.73 | 7.94 | 6.55 | 6.73 | 6.67 | 6.82 | 8.25 | 8.75 |
| January 1988 | 9.33 | 9.73 | 7.52 | 7.81 | 6.40 | 6.46 | 6.53 | 6.54 | 8.25 | 8.37 |
| February | 9.18 | 9.76 | 7.34 | 7.83 | 6.26 | 6.33 | 6.39 | 6.43 | 8.25 | 8.25 |
| March | 9.21 | 9.65 | 7.37 | 7.68 | 6.25 | 6.38 | 6.35 | 6.47 | 8.25 | 8.25 |
| April | 9.37 | 9.72 | 7.54 | 7.70 | 6.41 | 6.44 | 6.52 | 6.55 | 8.25 | 8.25 |
| May | 9.48 | 9.70 | 7.64 | 7.73 | 6.68 | 6.55 | 6.79 | 6.69 | 8.25 | 8.25 |
| June | 9.59 | 9.64 | 7.75 | 7.64 | 6.95 | 6.59 | 7.06 | 6.70 | 8.25 | 8.36 |
| July | 9.33 | 9.51 | 7.48 | 7.56 | 6.76 | 6.42 | 6.89 | 6.53 | 8.25 | 8.50 |
| August | 9.21 | 9.43 | 7.37 | 7.50 | 6.53 | 6.25 | 6.65 | 6.38 | 8.25 | 8.26 |
| September | 9.09 | 9.38 | 7.24 | 7.45 | 6.50 | 6.03 | 6.63 | 6.13 | 8.25 | 8.04 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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Economic Forecasting Center
College of Business Administration
404/651-3282

MONTHLY PROJECTIONS
November 1987

Dr. Donald Ratajczak, Director
For Release: December 2, 1987

## IF ITS A DEPRESSION, WHY IS THERE SO MUCH INFLATION?

Following the stock market collapse in 1929, commodity prices collapsed in the next few months. The Federal Reserve then ratified that price collapse by permitting the money stock to follow prices downward. This collapse in revenue potential led to the layoffs that impacted the real economy. Indeed, without the commodity price collapse, the stock market trauma probably would have been a minor financial dislocation without serious economic reverberations.

Following the stock market crash in October, commodity prices also fell, for a few days. Then, at least one measure of commodity prices, the CRB Index, began rising again until it reached a new high by the end of November. Clearly, a collapse in commodity prices has not developed at this time.

The Federal Reserve has dramatically increased liquidity. However, the Federal Reserve also added liquidity for a short period of time in that October nearly sixty years ago. Liquidity then was withdrawn as the economy declined. Today, the Federal Reserve also appears to be gradually withdrawing liquidity. However, the reduction of liquidity is occurring against the backdrop of rising commodity prices. As a result, short-term interest rates have stabilized, and the federal funds rate is trading above 7% again.

However, the surge in commodity prices may be less than it seems. To be sure, falling dollar values tend to raise commodity prices because most commodities worldwide are traded in dollars. The strong currency countries can purchase more commodities as their prices fall. The dollar's current decline appears to be accentuated by increased liquidity provided to shore up American financial markets. Nevertheless, dollar weakness probably should have been anticipated, at least until the D-mark reaches 1.5 and the yen falls to 125.

On the other hand, inflation is not intensifying that rapidly if the Journal of Commerce index is observed. On the day before the market crashed, that index was at 99.7. At the end of November, the index stood at 98.0. Moreover, our survey of crude material prices for November shows that five of the nine components fell significantly in price. However, a dramatic price increase for copper and more modest price increases for logs and aluminum caused the overall crude material index to rise more than 1.5%.

The price increase in copper appears to be the result of a temporary shortage of the metal available for production purposes. As a result of this temporary shortage, speculators have been accumulating available inventories. As inventories have been taken away from the production pipeline, prices have spiraled higher. However, no fundamental shortage in copper exists. Indeed, demand for copper is beginning to subside as housing activity weakens. Moreover, at current prices, increased production will be forthcoming in the next few months. As a result, prices soon should come tumbling down.

Excluding the exceptional effects of copper, inflationary pressures are about as intense as they were earlier in the year. Petroleum prices have stabilized following a surge upward during the Persian Gulf crisis in the summer months. Prices could come tumbling down after the winter season if Saudi Arabia does not move to reduce production. Under the assumption that Saudi Arabia will respond, prices will soon firm to $18 at the Persian Gulf, or slightly more than $19 in the United States.

As consumer spending gradually slows, commodity inflation will slowly subside. However, the dollar's weakness along with enough industrial strength from expanding export activity should combine to prevent any further erosion of inflationary pressures.

Unfortunately, little has happened to alter the forecast of a modest recession with only limited restraint upon inflation or interest rates. The deficit reduction package negotiated by the White House and the Congress amounts to very little. Excluding asset sales and assumptions about reduced interest rate payments, this year's deficit reductions are slightly less than required by Gramm-Rudman. Moreover, $9 billion of them are achieved by revenue increases. Thus, government would have been considerably smaller if the Gramm-Rudman process prevailed. The markets apparently have discovered that little was achieved by Congressional negotiations. While they express concern that the deficit reduction package may unravel in Congress, the markets really are saying that they don't care for the deficit reduction package negotiated by the Congress. More was expected than was achieved.

As expected last month, the equity markets did not rebound dramatically from their recent crash. This is consistent with our analysis that the markets were overinflated and collapsed to fundamentals. Lower interest rates suggest that the fundamentals are not deteriorating. Thus, the market can regroup between 1700 and 1800 as measured by the Dow. Then, values will depend upon whether the recession will be mild or severe (we think it will be mild) and whether interest rates can continue to trend downward or must respond to increasing inflationary pressures,( we think the inflationary pressures are only increasing temporarily and, therefore, interest rates will stay down, at least for another year). When these two forces are put together, it appears that a gradual rebound in equity values probably will materialize early next year.

## Quarterly Profile of GNP

| | 1987-3 | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 4.1 | 2.6 | 1.1 | 1.2 | 0.5 | -0.6 | 2.7 | 1.7 |
| Price: | 2.8 | 4.0 | 3.3 | 3.4 | 4.0 | 4.0 | 3.0 | 3.6 |
| Nominal: | 7.0 | 7.3 | 4.4 | 4.7 | 4.6 | 3.3 | 5.8 | 5.3 |

## Monthly Statistical Highlights for November 1987

Payroll employment +147,000; index of hours worked +0.1%; household employment +150,000; civilian unemployment rate 6.0; personal income -0.6%; savings rate 3.7%; personal consumption +0.2%; retail sales -0.1%; auto sales 9.2 million units; housing starts +2.3%; housing permits -1.0%; construction expenditures -0.5%; business inventories +0.5%; orders for durable goods -2.2%; orders for nondefense capital goods -3.8%; industrial production +0.2%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators -0.6%; real GNP (AR) -0.3%; M1(AR) +0.8; M2(AR) +6.2%.

## Monthly Statistical Highlights for December 1987

Payroll employment +156,000; index of hours worked +0.2%; household employment +212,000; civilian unemployment rate 6.0%; personal income +0.5; savings rate +3.6%; personal consumption +0.5%; retail sales +0.7%; auto sales 9.3 million units; housing starts -1.7%; housing permits -1.3%; construction expenditures -0.1%; business inventories +0.3%; orders for durable goods +0.3%; orders for nondefense capital goods +0.5%; industrial production +0.1%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators +0.2%; real GNP(AR) +1.3%; M1(AR) +9.0%; M2(AR) +9.0%.

## Commentary

Employment - Not only did the workweek expand by the amount distorted by Labor Day's survey, but an extra 0.1 hours was included. As a result, overtime hours in manufacturing were at the highest level in twelve years. To be sure, the 549,000 increase in payrolls was distorted by a five-week survey and by nearly a 200,000 increase in government payrolls. The latter clearly reflects more than the return of 65,000 striking teachers. Little government payroll growth should be anticipated in November. On the other hand, continuing growth in manufacturing payrolls is anticipated. Some weakness probably will crop up in retail activity as retailers become increasingly nervous about the Christmas season. In addition, layoffs already have begun in some financial service areas. Thus, a significant slowing in payrolls should be anticipated. Moreover, the workweek probably will decline, but this will be as a result of increased hirings in the manufacturing area.

The insured unemployment rate is now at a surprisingly low 2.1% while initial unemployment claims remain near 290,000 more than four weeks after the stock market collapsed. Any impact upon real economic activity will be slow in developing.

Personal Income and Outlays - Personal income was dramatically distorted upward by a farm crop support payment. Excluding farm supports, personal income would have increased only 0.6% rather than by the 1.7% actually recorded. Wage and salary growth was robust, as expected. As crop supports return to normal in November, personal income should fall back toward previously anticipated levels. Excluding crop supports, personal income is growing near levels anticipated by the November forecast.

Outlays, however, have been surprisingly robust. Part of the reason for stronger outlays is the stock market collapse itself. As a result of increased trading activity, expenditures soared for financial services. Slower trading activity should significantly reduce growth in services expenditures in November. However, higher costs for housing services will continue to create greater expenditures in services than had originally been anticipated. Outlays for consumer durables were more sluggish than anticipated in the forecast despite upward revisions in purchases of nonautomobile durables. The weakness appears to be the result of sluggishness in truck purchases relative to anticipations. Truck purchases are expanding from a year ago, but they appear to be more sluggish than our projections. This will result in slower expenditures for durables than originally anticipated.

Despite a shift in the desired savings rate, actual savings increase sluggishly. This is partially the result of the reversal of crop support payments, all of which traditionally goes into savings in the month in which it is received, but it is also the result of reduced economic activity from reduced spending desires. This reduced activity leads to slower earnings growth that ulitmately results in less actual savings than desired.

However, consumer durables certainly are expected to feel the brunt of the stock market crash as automobile sales remain sluggish through next year and as non-auto durables show no growth from current levels.

Construction - As expected, housing starts fell significantly in the South in October as more normal weather began to prevail. However, the decline in starts also appears to be the result of concern by contractors that economic conditions will not warrant increased housing activity. Weakness was especially dramatic in multi-family activity. Some improvement should be anticipated in multi-family starts in the next few months. However, single-family starts should remain sluggish until the spring as a result of increased uncertainty. Reduced interest rates are expected to prevent single-family starts from slowing as much as originally anticipated, however.

Despite slightly stronger housing starts, residential construction expenditures are not expected to rebound as much in the latter part of 1988 as originally expected. This is largely the result of a poorer remodeling market than originally expected. Reduced income activity appears to be the major factor causing this restraint. Nonresidential construction has been surprisingly strong as a result of industrial and hotel activity. Some weakening is expected to develop in the months ahead as higher vacancy rates and increased economic uncertainty develop. The surge in public construction that occurred in September appears to be the result of timing distortions between August and September and will have no material effect upon the long-term trend of public construction.

Business Activity - Durable goods continued to show increasing orders in October despite an anticipated slowing in orders for primary metals. However, the magnitude of the weakness in orders for primary metals was less than anticipated. This is probably the result of price anticipations leading to some price hedge stocking at the present time. The other strength in durable goods occurred in commercial aircraft, which notoriously vacillates during the year. A falloff in commercial aircraft should be observed in nondefense capital goods orders in November. Defense orders are close to shipments and should show no dramatic changes in the next few months.

The budget compromise probably will lead to slightly less defense activity than originally anticipated over the next year. However, the mildness of the expected slowing should have minimal effect upon capital goods orders or shipments. For that reason, only a relatively modest sag in durable goods orders is expected in the next few months before some strengthening develops later in the year.

Business inventories remain stronger than anticipated as some price hedge inventory of industrial materials appears to be developing. In addition, poor automobile sales have caused the retail inventories to swell. These inventories will be worked down in the first quarter of 1988. Then, more orderly increases in business inventories are expected until late in the year when reduced sales lead to a reduction in desired inventory holdings.

Industrial production rebounded strongly in October following a downward revision in September. Much of this rebound was the result of a 1.3% increase in consumer goods caused by a surge in auto assemblies. Autos were being assembled at 7.3 million units even as they were being sold at 6.0 million units. Announcements of production curtailments already have been made that will influence industrial production modestly in December and more significantly in January. Weakness in industrial production then is expected to develop in the spring and remain until later in the year when more intense weakness will develop as inventories are being corrected.

Prices - After falling 0.2% in October, producers' prices should rebound in November. Much of the price weakness in October was the result of less-than-anticipated price increases for trucks along with moderate declines in energy and food prices. Food prices are rebounding in November while energy prices continue to decline. However, the truck price distortions are model year distortions that should not persist. Meat prices will decline early in 1988, leading to lower increases in the producer price index than originally anticipated. Part of this will be offset by higher prices for some service components, especially housing and utilities, than previously expected. Nevertheless, the consumer price index probably will grow at a slower rate than previously expected. Even so, inflation near 4% appears to be likely next year.

A relatively modest inflationary outlook is surprising in light of the acceleration in crude material prices and continuing weakening of the dollar. The dollar's decline will have some inflationary impact especially from increases in the prices of automobiles and clothing. However, those price increases remain relatively modest. On the other hand, price increases for crude materials reside in only a few commodities. The absence of supplies that is generating increased prices for those commodities should soon be resolved. As a result, no lasting price influence is anticipated from the effects of higher copper prices.

Miscellaneous - The leading indicators are expected to fall over the next two months before stabilizing early next year. Most of the weakness will come from declining stock prices, reduced building permits, and slight weakness in orders. Sensitive prices also will probably create a slight downward bias.

The improvement in trade balances is expected to be slower than originally projected as a result of the dollar's continuing weakness. As long as the dollar continues to fall, rising price tags for imports will be greater than the reduced volume of imports. Thus, trade balances cannot improve significantly until there is dollar stability. Such dollar stability currently is not anticipated until the second half of next year.

## FINANCIAL MARKETS

Much of the weakness in short-term interest rates was the result of Federal Reserve intrusion into the marketplace. This is especially obvious as a result of the unusual discrepancy between rates for federal funds and commercial paper. As a result of intensifying credit market pressures prior to the stock market crash, commercial paper rates were increasing dramatically. The Fed then reversed course and sharply increased the availability of reserves. Now, economic activity is beginning to soften and commercial paper rates are coming down. This is also bringing down rates for ninety-day CDs. However, the softening of the economy has lagged behind the accommodation of the Federal Reserve. Therefore, as the Federal Reserve begins to mop up liquidity, short-term interest rates appear to be rising. The Federal Reserve is not expected to cause interest rates to rise significantly, however.

Indeed, an analysis of sources of funds provides several arguments for reduced interest rates ahead. Corporate demands for funds will gradually ease as reduced sales activity leads to gradual reduction in investment activity. However, corporate earnings also will be deteriorating. For a short period of time, corporations may actually have to increase their borrowing needs until a lessening of inventory investments finally provides credit market relief in the second half of 1988. The household sector will be increasing their savings activity and also reducing their need for mortgage borrowings. Thus, a significant swing in the supply of funds by the household sector will ultimately influence the change in credit market pressures. The government sector will be increasing its borrowing needs despite the deficit accord, which really isn't very much, anyway. Indeed, government borrowings probably will rise by $20 billion dollars next year.

Initially, foreign flows may be adverse, as the dollar appears to be too high at present levels. However, once the dollar falls to levels that are believed to be undervalued by most foreign investors, foreign capital flows once again will be available. While interest rates may stabilize or even move upward slightly early in 1988, they almost certainly will be trending downward in the second half of the year as the economy slows. Therefore, interest rates are expected to decline to the vicinity of 8.5% for long-term government bonds and the prime rate is expected to reach 8% before the end of next year. Significantly lower interest rates than that would require more dramatic adjustments in the American economy. Therefore, bond prices probably will again begin deteriorating once the end of the recession is reached early in 1989.

Equity Markets - As expected, the equity markets have showed little potential for rallying from levels reached after the October crash. The markets may overadjust, causing the stock market to register Dow Jones values below 1700 early in 1988. In addition, tax loss selling will continue to drive down stock prices at the end of 1987. At that point, however, stability in interest-sensitive issues and increasing profit opportunities by multi-national corporations should provide foundations for a rebound in equity values. In addition, if our assessment of capital spending is correct, all the weakness in capital spending in 1988 will be borne by foreign investors. This means that the capital goods industry in the United States will not deteriorate as much as stock market values currently expect. Indeed, some rebound probably is possible in the technology and computer stocks by the second half of 1988. The Dow Jones probably will move back above 2000 before the end of 1988.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 102126 | 102126 | 120.6 | 120.6 | 112727 | 112727 | 6.0 | 6.0 | 173.2 | 173.2 |
| August | 102278 | 102275 | 121.2 | 121.2 | 113081 | 113081 | 6.0 | 6.0 | 174.1 | 174.1 |
| September | 102410 | 102396 | 120.2 | 120.2 | 112772 | 112772 | 5.9 | 5.9 | 174.7 | 174.5 |
| October | 102685 | 102945 | 121.5 | 121.5 | 113456 | 113187 | 5.9 | 6.0 | 175.1 | 174.6 |
| November | 102780 | 103092* | 121.7 | 121.6* | 113516 | 113337* | 5.8 | 6.0* | 175.5 | 174.9* |
| December | 102873 | 103248 | 121.8 | 121.8 | 113577 | 113549 | 5.8 | 6.0 | 175.9 | 175.3 |
| January 1988 | 102986 | 103403 | 121.8 | 122.0 | 113753 | 113729 | 5.8 | 6.0 | 176.3 | 175.6 |
| February | 103081 | 103516 | 121.7 | 122.1 | 113935 | 113870 | 5.8 | 6.0 | 176.8 | 176.0 |
| March | 103175 | 103593 | 121.7 | 122.2 | 114117 | 113964 | 5.8 | 6.1 | 177.5 | 176.5 |
| April | 103346 | 103716 | 121.9 | 122.3 | 114298 | 114103 | 5.8 | 6.1 | 178.0 | 176.9 |
| May | 103502 | 103812 | 122.1 | 122.3 | 114439 | 114166 | 5.8 | 6.2 | 178.4 | 177.5 |
| June | 103658 | 103895 | 122.4 | 122.4 | 114580 | 114322 | 5.9 | 6.2 | 178.9 | 178.0 |
| July | 103796 | 103996 | 122.5 | 122.5 | 114723 | 114483 | 5.9 | 6.2 | 179.5 | 178.4 |
| August | 103905 | 104095 | 122.6 | 122.6 | 114840 | 114608 | 5.9 | 6.2 | 180.2 | 179.0 |
| September | 104044 | 104143 | 122.7 | 122.6 | 114957 | 114670 | 6.0 | 6.3 | 180.8 | 179.6 |
| October | 104207 | 104267 | 122.8 | 122.7 | 115118 | 114870 | 5.9 | 6.2 | 181.3 | 180.2 |
| November | 104293 | 104233 | 122.8 | 122.6 | 115325 | 114914 | 5.9 | 6.3 | 181.7 | 180.8 |
| December | 104286 | 104185 | 122.7 | 122.5 | 115223 | 114876 | 6.0 | 6.4 | 182.2 | 181.4 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 3.737 | 3.737 | 2.210 | 2.210 | 107.0 | 107.0 | 3.176 | 3.176 | 3.069 | 3.069 |
| August | 3.758 | 3.756 | 2.229 | 2.229 | 70.2 | 70.0 | 3.192 | 3.190 | 3.122 | 3.120 |
| September | 3.784 | 3.777 | 2.242 | 2.241 | 106.6 | 95.8 | 3.213 | 3.207 | 3.106 | 3.112 |
| October | 3.802 | 3.841 | 2.256 | 2.257 | 124.3 | 153.4 | 3.229 | 3.266 | 3.105 | 3.113 |
| November | 3.818 | 3.817* | 2.265 | 2.264* | 121.8 | 118.5* | 3.243 | 3.238* | 3.121 | 3.120* |
| December | 3.835 | 3.835 | 2.273 | 2.275 | 121.4 | 116.1 | 3.258 | 3.252 | 3.136 | 3.136 |
| January 1988 | 3.839 | 3.845 | 2.282 | 2.284 | 140.7 | 145.0 | 3.291 | 3.295 | 3.150 | 3.150 |
| February | 3.859 | 3.863 | 2.292 | 2.293 | 147.0 | 148.3 | 3.314 | 3.315 | 3.167 | 3.167 |
| March | 3.878 | 3.880 | 2.303 | 2.302 | 144.9 | 152.3 | 3.329 | 3.333 | 3.184 | 3.181 |
| April | 3.891 | 3.896 | 2.312 | 2.311 | 143.6 | 146.2 | 3.340 | 3.344 | 3.196 | 3.198 |
| May | 3.903 | 3.913 | 2.323 | 2.320 | 134.9 | 150.5 | 3.346 | 3.358 | 3.211 | 3.207 |
| June | 3.915 | 3.930 | 2.333 | 2.330 | 124.1 | 135.2 | 3.353 | 3.371 | 3.229 | 3.236 |
| July | 3.932 | 3.945 | 2.344 | 2.338 | 123.6 | 137.3 | 3.366 | 3.382 | 3.242 | 3.245 |
| August | 3.949 | 3.963 | 2.355 | 2.350 | 122.2 | 145.3 | 3.376 | 3.396 | 3.254 | 3.251 |
| September | 3.965 | 3.977 | 2.366 | 2.359 | 104.6 | 132.6 | 3.386 | 3.406 | 3.282 | 3.273 |
| October | 3.978 | 3.995 | 2.375 | 2.371 | 121.3 | 152.5 | 3.398 | 3.418 | 3.277 | 3.266 |
| November | 3.988 | 4.006 | 2.384 | 2.378 | 106.5 | 131.3 | 3.403 | 3.425 | 3.297 | 3.294 |
| December | 3.999 | 4.021 | 2.393 | 2.386 | 89.3 | 125.3 | 3.409 | 3.436 | 3.320 | 3.311 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 2974.5 | 2974.5 | 417.1 | 417.1 | 984.6 | 984.6 | 1572.7 | 1572.7 | 2501.9 | 2501.9 |
| August | 3026.3 | 3024.9 | 447.4 | 447.5 | 991.9 | 990.1 | 1587.0 | 1587.3 | 2534.8 | 2533.2 |
| September | 3010.2 | 3015.6 | 433.3 | 435.0 | 987.7 | 987.0 | 1589.3 | 1593.6 | 2514.3 | 2512.5 |
| October | 3008.8 | 3015.8 | 415.1 | 411.4 | 992.3 | 992.0 | 1601.4 | 1612.5 | 2505.2 | 2502.1* |
| November | 3024.4 | 3022.0* | 413.6 | 410.4* | 997.0 | 994.9* | 1613.8 | 1616.7* | 2505.7 | 2498.6 |
| December | 3039.1 | 3037.7 | 414.5 | 412.1 | 1000.8 | 1001.0 | 1623.8 | 1624.6 | 2511.7 | 2503.8 |
| January 1988 | 3052.6 | 3051.1 | 418.5 | 416.4 | 1002.6 | 1001.9 | 1631.5 | 1632.8 | 2514.5 | 2508.8 |
| February | 3068.9 | 3067.2 | 422.2 | 417.9 | 1004.6 | 1006.2 | 1642.1 | 1643.1 | 2521.7 | 2514.2 |
| March | 3085.5 | 3080.6 | 426.0 | 419.8 | 1006.7 | 1007.9 | 1652.8 | 1652.9 | 2527.0 | 2521.0 |
| April | 3097.4 | 3097.2 | 425.3 | 422.4 | 1010.6 | 1012.5 | 1661.5 | 1662.3 | 2528.5 | 2526.8 |
| May | 3111.6 | 3106.2 | 423.7 | 417.0 | 1016.2 | 1017.1 | 1671.7 | 1672.1 | 2531.8 | 2524.5 |
| June | 3129.2 | 3134.3 | 425.7 | 431.5 | 1021.5 | 1021.0 | 1682.0 | 1681.8 | 2537.9 | 2540.2 |
| July | 3142.0 | 3142.7 | 425.8 | 426.1 | 1024.8 | 1024.7 | 1691.4 | 1691.9 | 2540.0 | 2536.4 |
| August | 3152.9 | 3148.2 | 423.9 | 418.5 | 1027.7 | 1028.2 | 1701.3 | 1701.5 | 2540.6 | 2533.4 |
| September | 3180.5 | 3170.5 | 438.2 | 430.0 | 1030.8 | 1030.9 | 1711.5 | 1709.6 | 2554.6 | 2543.0 |
| October | 3174.9 | 3162.0 | 416.9 | 406.7 | 1035.4 | 1034.9 | 1722.6 | 1720.4 | 2539.9 | 2526.1 |
| November | 3194.2 | 3189.7 | 421.3 | 420.8 | 1040.1 | 1039.1 | 1732.8 | 1729.8 | 2545.2 | 2541.8 |
| December | 3216.8 | 3206.2 | 429.2 | 423.5 | 1044.6 | 1042.8 | 1743.0 | 1739.9 | 2555.0 | 2545.1 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 127.06 | 127.06 | 20.30 | 20.30 | 10.5 | 10.5 | 77.33 | 77.33 | 29.44 | 29.44 |
| August | 129.27 | 128.93 | 20.18 | 20.26 | 12.4 | 12.4 | 77.98 | 77.79 | 31.11 | 30.88 |
| September | 128.76 | 127.56 | 20.17 | 20.36 | 10.1 | 11.7 | 77.93 | 77.41 | 30.66 | 29.78 |
| October | 127.01 | 127.42 | 20.27 | 20.64 | 9.3 | 9.3 | 78.08 | 77.78 | 28.66 | 29.00 |
| November | 126.74 | 127.32* | 20.36 | 20.55* | 9.0 | 9.2* | 78.45 | 78.04* | 27.93 | 28.73* |
| December | 128.23 | 128.25 | 20.31 | 20.61 | 9.4 | 9.3 | 78.75 | 78.52 | 29.17 | 29.12 |
| January 1988 | 128.96 | 128.83 | 20.25 | 20.54 | 9.6 | 9.5 | 78.89 | 78.59 | 29.79 | 29.70 |
| February | 129.97 | 129.35 | 20.20 | 20.46 | 9.9 | 9.6 | 79.05 | 78.93 | 30.72 | 29.96 |
| March | 130.43 | 129.71 | 20.19 | 20.37 | 10.0 | 9.7 | 79.21 | 79.06 | 31.03 | 30.28 |
| April | 130.39 | 130.39 | 20.15 | 20.43 | 9.9 | 9.8 | 79.52 | 79.42 | 30.72 | 30.54 |
| May | 129.78 | 130.09 | 20.14 | 20.40 | 9.6 | 9.6 | 79.96 | 79.78 | 29.68 | 29.91 |
| June | 132.42 | 132.15 | 20.20 | 20.35 | 10.3 | 10.2 | 80.38 | 80.09 | 31.84 | 31.71 |
| July | 132.56 | 131.87 | 20.17 | 20.38 | 10.2 | 10.0 | 80.64 | 80.46 | 31.75 | 31.03 |
| August | 131.47 | 131.23 | 20.10 | 20.36 | 9.8 | 9.7 | 80.87 | 80.73 | 30.50 | 30.14 |
| September | 133.81 | 133.14 | 20.09 | 20.40 | 10.8 | 10.4 | 81.11 | 80.95 | 32.61 | 31.79 |
| October | 130.29 | 130.09 | 20.15 | 20.43 | 8.9 | 9.0 | 81.47 | 81.26 | 28.67 | 28.40 |
| November | 131.30 | 132.36 | 20.25 | 20.49 | 9.1 | 9.2 | 81.84 | 81.59 | 29.21 | 30.28 |
| December | 132.81 | 132.98 | 20.34 | 20.54 | 9.4 | 9.3 | 82.20 | 81.88 | 30.27 | 30.56 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts Fore. | Housing Starts C.E. | Single Family Starts Fore. | Single Family Starts C.E. | Housing Permits Fore. | Housing Permits C.E. | Construction Expenditures (Current) Fore. | Construction Expenditures (Current) C.E. | Construction Expenditures (Real) Fore. | Construction Expenditures (Real) C.E. |
|---|---|---|---|---|---|---|---|---|---|---|
| July 1987 | 1.598 | 1.598 | 1.143 | 1.143 | 1.487 | 1.487 | 393.4 | 399.7 | 341.1 | 346.4 |
| August | 1.598 | 1.598 | 1.111 | 1.111 | 1.502 | 1.502 | 399.6 | 400.1 | 345.6 | 345.8 |
| September | 1.669 | 1.648 | 1.168 | 1.186 | 1.493 | 1.502 | 399.8 | 406.3 | 344.7 | 350.8 |
| October | 1.592 | 1.513 | 1.106 | 1.103 | 1.501 | 1.451 | 397.0 | 403.3* | 342.2 | 347.7* |
| November | 1.577 | 1.548* | 1.093 | 1.110* | 1.473 | 1.436* | 396.2 | 401.3 | 340.7 | 345.1 |
| December | 1.558 | 1.521 | 1.080 | 1.078 | 1.426 | 1.417 | 395.7 | 400.7 | 339.4 | 343.9 |
| January 1988 | 1.486 | 1.496 | 1.005 | 1.053 | 1.391 | 1.365 | 391.0 | 396.9 | 334.8 | 340.1 |
| February | 1.431 | 1.462 | 0.973 | 1.036 | 1.354 | 1.347 | 388.3 | 396.6 | 331.9 | 339.0 |
| March | 1.418 | 1.446 | 0.950 | 1.009 | 1.326 | 1.351 | 386.9 | 394.1 | 330.1 | 336.3 |
| April | 1.420 | 1.453 | 0.946 | 1.013 | 1.330 | 1.355 | 384.9 | 392.9 | 327.6 | 334.4 |
| May | 1.439 | 1.465 | 0.955 | 1.019 | 1.335 | 1.363 | 383.1 | 393.0 | 325.2 | 333.9 |
| June | 1.456 | 1.477 | 0.964 | 1.026 | 1.346 | 1.378 | 382.1 | 393.4 | 323.3 | 333.4 |
| July | 1.483 | 1.488 | 0.992 | 1.035 | 1.369 | 1.395 | 385.2 | 394.3 | 325.6 | 333.6 |
| August | 1.492 | 1.512 | 1.001 | 1.051 | 1.394 | 1.418 | 388.3 | 395.1 | 328.0 | 333.7 |
| September | 1.498 | 1.508 | 1.010 | 1.043 | 1.406 | 1.401 | 391.7 | 397.0 | 330.8 | 334.7 |
| October | 1.519 | 1.491 | 1.017 | 1.048 | 1.423 | 1.378 | 394.8 | 398.6 | 332.3 | 335.2 |
| November | 1.528 | 1.503 | 1.026 | 1.056 | 1.430 | 1.403 | 397.5 | 398.7 | 333.5 | 334.5 |
| December | 1.536 | 1.518 | 1.035 | 1.065 | 1.439 | 1.413 | 400.2 | 399.0 | 334.6 | 333.9 |

| | Non-Residential Fore. | Non-Residential C.E. | Public Construction Fore. | Public Construction C.E. | Residential Construction Fore. | Residential Construction C.E. |
|---|---|---|---|---|---|---|
| July 1987 | 121.7 | 126.9 | 73.8 | 74.7 | 197.9 | 198.1 |
| August | 124.5 | 128.8 | 74.5 | 71.9 | 200.6 | 199.4 |
| September | 123.8 | 129.0 | 74.8 | 76.6 | 201.2 | 200.7 |
| October | 122.4 | 128.3* | 74.2 | 75.5* | 200.4 | 199.5* |
| November | 121.8 | 127.6 | 74.8 | 76.1 | 199.6 | 197.6 |
| December | 121.4 | 127.3 | 75.4 | 76.5 | 198.9 | 196.9 |
| January 1988 | 120.6 | 125.4 | 75.8 | 76.3 | 194.6 | 195.2 |
| February | 119.8 | 125.1 | 76.4 | 76.6 | 192.1 | 194.9 |
| March | 119.0 | 124.5 | 77.1 | 76.9 | 190.8 | 192.7 |
| April | 119.3 | 124.7 | 77.5 | 77.3 | 188.1 | 190.9 |
| May | 119.1 | 125.2 | 77.1 | 77.4 | 186.9 | 190.4 |
| June | 119.2 | 125.1 | 77.3 | 77.8 | 185.6 | 190.5 |
| July | 118.8 | 124.8 | 77.9 | 78.3 | 188.5 | 191.2 |
| August | 118.9 | 125.0 | 78.4 | 78.1 | 191.0 | 192.0 |
| September | 119.0 | 125.2 | 79.0 | 78.5 | 193.7 | 193.3 |
| October | 119.3 | 125.7 | 79.2 | 78.9 | 196.3 | 194.0 |
| November | 119.5 | 125.3 | 79.4 | 79.3 | 198.6 | 194.1 |
| December | 119.8 | 125.2 | 79.4 | 79.6 | 201.0 | 194.2 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 323.3 | 323.3 | 109.17 | 109.17 | 31.98 | 31.98 | 28.10 | 28.10 |
| August | 325.1 | 325.1 | 106.62 | 106.62 | 29.52 | 29.52 | 28.47 | 28.47 |
| September | 324.2 | 326.5 | 107.80 | 109.27 | 29.15 | 29.75 | 29.12 | 29.69 |
| October | 326.6 | 327.7* | 106.95 | 109.57 | 29.33 | 29.94 | 29.16 | 29.04 |
| November | 327.8 | 329.0 | 105.48 | 107.21* | 29.25 | 28.79* | 29.24 | 29.23* |
| December | 329.3 | 329.9 | 103.97 | 107.53 | 28.65 | 28.92 | 28.60 | 29.36 |
| January 1988 | 331.5 | 330.8 | 104.46 | 107.02 | 28.67 | 28.53 | 28.25 | 28.69 |
| February | 332.9 | 331.9 | 104.65 | 107.18 | 28.43 | 28.66 | 28.40 | 28.52 |
| March | 334.6 | 333.2 | 105.14 | 107.46 | 28.46 | 28.69 | 28.52 | 28.59 |
| April | 336.1 | 334.8 | 104.87 | 107.05 | 28.69 | 28.51 | 28.56 | 28.47 |
| May | 338.0 | 336.1 | 105.56 | 106.21 | 28.73 | 28.37 | 28.69 | 28.56 |
| June | 339.5 | 337.8 | 105.29 | 106.65 | 28.65 | 28.55 | 28.83 | 28.71 |
| July | 341.0 | 339.2 | 105.16 | 106.43 | 28.64 | 28.66 | 28.59 | 28.70 |
| August | 342.2 | 340.9 | 105.94 | 107.12 | 28.73 | 28.81 | 28.75 | 28.63 |
| September | 343.4 | 342.5 | 106.65 | 108.84 | 28.75 | 29.03 | 28.73 | 28.47 |
| October | 344.9 | 343.9 | 107.13 | 108.09 | 28.94 | 28.95 | 28.82 | 28.66 |
| November | 345.8 | 345.2 | 107.48 | 109.13 | 29.06 | 29.08 | 28.98 | 28.81 |
| December | 346.8 | 346.7 | 107.26 | 108.85 | 29.01 | 28.85 | 28.80 | 29.03 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 677.7 | 677.7 | 8.91 | 8.91 | 130.6 | 130.6 | 81.1 | 81.1 |
| August | 678.8 | 678.8 | 8.80 | 8.80 | 131.0 | 131.0 | 81.2 | 81.2 |
| September | 678.3 | 682.4 | 9.53 | 9.50 | 131.2 | 130.9 | 81.2 | 81.0 |
| October | 681.5 | 685.3* | 9.26 | 8.93 | 131.7 | 131.7 | 81.4 | 81.3 |
| November | 684.9 | 688.4 | 9.10 | 9.10* | 132.0 | 132.0* | 81.4 | 81.4* |
| December | 688.0 | 690.6 | 9.15 | 9.16 | 132.1 | 132.1 | 81.3 | 81.3 |
| January 1988 | 691.2 | 692.5 | 9.23 | 9.22 | 131.8 | 132.0 | 81.0 | 81.0 |
| February | 694.3 | 694.8 | 9.32 | 9.29 | 131.5 | 131.8 | 80.7 | 80.8 |
| March | 697.9 | 697.5 | 9.40 | 9.35 | 131.3 | 131.5 | 80.4 | 80.6 |
| April | 700.3 | 700.3 | 9.28 | 9.26 | 131.3 | 131.5 | 80.2 | 80.4 |
| May | 704.1 | 703.0 | 9.37 | 9.34 | 131.5 | 131.2 | 80.2 | 80.0 |
| June | 707.1 | 705.5 | 9.50 | 9.43 | 131.7 | 131.4 | 80.2 | 80.0 |
| July | 709.6 | 709.4 | 9.43 | 9.45 | 131.9 | 131.2 | 80.2 | 79.8 |
| August | 712.3 | 712.8 | 9.62 | 9.56 | 132.2 | 131.4 | 80.3 | 79.8 |
| September | 714.9 | 715.6 | 9.38 | 9.50 | 132.5 | 131.3 | 80.4 | 79.6 |
| October | 717.6 | 718.5 | 9.43 | 9.17 | 132.0 | 131.5 | 79.5 | 79.6 |
| November | 720.5 | 721.2 | 9.52 | 9.33 | 130.3 | 131.0 | 78.3 | 79.0 |
| December | 723.1 | 724.3 | 9.60 | 9.45 | 128.6 | 129.7 | 77.1 | 78.1 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 341.0 | 341.0 | 297.4 | 297.4 | 322.6 | 322.6 | 117.6 | 117.6 |
| August | 342.7 | 342.7 | 297.3 | 297.3 | 323.0 | 323.0 | 117.8 | 117.8 |
| September | 343.4 | 343.4 | 298.2 | 298.2 | 324.0 | 323.3 | 118.1 | 118.2 |
| October | 344.9 | 344.4 | 298.5 | 297.7 | 325.0 | 324.9 | 118.5 | 118.7* |
| November | 346.3 | 345.4* | 299.4 | 298.6* | 325.7 | 325.6* | 118.8 | 119.1 |
| December | 347.7 | 346.5 | 300.3 | 299.5 | 326.5 | 326.9 | 119.1 | 119.4 |
| January 1988 | 348.6 | 347.4 | 300.7 | 299.9 | 327.3 | 327.4 | 119.6 | 119.7 |
| February | 349.5 | 348.5 | 301.1 | 300.5 | 328.4 | 328.1 | 120.1 | 120.1 |
| March | 350.5 | 349.1 | 301.5 | 300.8 | 329.5 | 328.9 | 120.6 | 120.3 |
| April | 351.8 | 350.2 | 302.3 | 301.6 | 330.1 | 329.8 | 120.9 | 120.6 |
| May | 353.2 | 351.4 | 303.2 | 302.4 | 330.6 | 330.4 | 121.2 | 121.1 |
| June | 354.7 | 352.5 | 304.2 | 303.0 | 331.2 | 331.1 | 121.4 | 121.4 |
| July | 355.7 | 353.9 | 304.9 | 304.2 | 332.1 | 332.5 | 121.7 | 121.9 |
| August | 356.8 | 355.0 | 305.6 | 305.1 | 333.0 | 333.6 | 122.1 | 122.2 |
| September | 357.7 | 356.3 | 306.3 | 306.0 | 333.9 | 332.4 | 122.5 | 122.6 |
| October | 359.1 | 357.7 | 307.1 | 307.0 | 335.8 | 335.6 | 122.9 | 123.1 |
| November | 360.5 | 358.6 | 308.2 | 307.2 | 337.7 | 336.1 | 123.3 | 123.4 |
| December | 361.9 | 360.1 | 309.3 | 308.4 | 339.6 | 337.5 | 123.7 | 123.8 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 118.9 | 118.9 | 106.6 | 106.6 | 112.1 | 112.1 | 127.6 | 127.6 | 115.3 | 115.4 |
| August | 119.4 | 119.4 | 107.5 | 107.5 | 112.6 | 112.6 | 128.2 | 128.2 | 115.6 | 115.7 |
| September | 119.6 | 120.1 | 107.8 | 107.5 | 112.8 | 113.2 | 128.5 | 128.9 | 115.8 | 115.8 |
| October | 120.1 | 120.5* | 107.7 | 107.7* | 113.3 | 113.5* | 129.0 | 129.4* | 116.0 | 116.0* |
| November | 120.7 | 120.9 | 107.6 | 108.0 | 113.7 | 113.7 | 129.5 | 130.0 | 116.3 | 116.3 |
| December | 121.0 | 121.3 | 107.6 | 108.0 | 114.1 | 114.1 | 130.1 | 130.5 | 116.6 | 116.5 |
| January 1988 | 121.4 | 121.6 | 108.0 | 108.2 | 114.4 | 114.3 | 130.6 | 130.9 | 116.8 | 116.7 |
| February | 121.7 | 122.0 | 108.2 | 108.3 | 114.6 | 114.5 | 131.0 | 131.5 | 117.0 | 117.0 |
| March | 122.1 | 122.2 | 108.4 | 108.3 | 114.6 | 114.5 | 131.4 | 131.9 | 117.2 | 117.2 |
| April | 122.5 | 122.6 | 108.5 | 108.5 | 115.0 | 114.8 | 131.9 | 132.4 | 117.5 | 117.5 |
| May | 122.9 | 123.0 | 108.7 | 108.7 | 115.4 | 115.1 | 132.5 | 133.0 | 117.8 | 117.7 |
| June | 123.3 | 123.4 | 108.9 | 108.8 | 115.8 | 115.4 | 133.1 | 133.6 | 118.2 | 118.0 |
| July | 123.7 | 123.9 | 109.2 | 109.1 | 116.0 | 115.9 | 133.5 | 134.1 | 118.3 | 118.2 |
| August | 124.1 | 124.3 | 109.4 | 109.3 | 116.3 | 116.3 | 133.9 | 134.6 | 118.4 | 118.4 |
| September | 124.5 | 124.7 | 109.7 | 109.3 | 116.6 | 116.6 | 134.3 | 135.1 | 118.4 | 118.6 |
| October | 125.0 | 125.2 | 109.9 | 109.8 | 117.1 | 116.8 | 134.9 | 135.5 | 118.8 | 118.9 |
| November | 125.5 | 125.5 | 110.0 | 110.0 | 117.7 | 117.1 | 135.5 | 136.0 | 119.2 | 119.2 |
| December | 125.9 | 126.0 | 109.9 | 110.1 | 118.4 | 117.6 | 136.1 | 136.6 | 119.6 | 119.5 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | -16.47 | -16.47 | 191.4 | 191.5 | 4487 | 4487 | 3815 | 3815 | -17.6 | -17.6 |
| August | -15.67 | -15.67 | 192.6 | 192.6 | 4516 | 4520 | 3834 | 3837 | -13.9 | -17.1 |
| September | -16.10 | -14.08 | 192.0 | 192.5 | 4533 | 4555 | 3838 | 3854 | -10.5 | -16.6 |
| October | -14.76 | -14.31* | 189.7 | 191.5* | 4556 | 4578 | 3845 | 3857 | -8.0 | -15.1 |
| November | -14.33 | -14.67 | 188.8 | 190.3 | 4578 | 4592 | 3854 | 3856 | -7.6 | -14.3 |
| December | -13.91 | -13.98 | 186.9 | 190.6 | 4600 | 4609 | 3862 | 3860 | -8.9 | -14.0 |
| January 1988 | -13.73 | -14.06 | 187.5 | 190.2 | 4615 | 4622 | 3859 | 3861 | -8.5 | -12.6 |
| February | -13.87 | -13.93 | 188.2 | 190.5 | 4629 | 4643 | 3854 | 3866 | -7.8 | -12.9 |
| March | -14.02 | -13.72 | 188.4 | 190.8 | 4644 | 4664 | 3851 | 3877 | -9.3 | -11.1 |
| April | -13.73 | -13.85 | 188.0 | 190.3 | 4665 | 4679 | 3859 | 3879 | -6.5 | -9.8 |
| May | -13.46 | -13.55 | 188.6 | 188.9 | 4688 | 4694 | 3868 | 3876 | -6.1 | -9.7 |
| June | -13.15 | -14.29 | 188.2 | 190.1 | 4712 | 4716 | 3881 | 3885 | -7.2 | -9.9 |
| July | -15.32 | -15.01 | 188.4 | 189.6 | 4731 | 4735 | 3887 | 3884 | -7.4 | -10.8 |
| August | -14.42 | -14.38 | 188.7 | 190.3 | 4754 | 4745 | 3894 | 3883 | -7.5 | -11.5 |
| September | -12.61 | -13.76 | 188.5 | 190.9 | 4778 | 4768 | 3900 | 3889 | -7.9 | -12.3 |
| October | -12.95 | -13.55 | 187.8 | 190.1 | 4790 | 4765 | 3897 | 3871 | -15.6 | -14.6 |
| November | -13.43 | -13.78 | 187.6 | 191.0 | 4798 | 4792 | 3891 | 3884 | -19.7 | -17.5 |
| December | -13.26 | -13.53 | 188.2 | 190.7 | 4800 | 4807 | 3880 | 3883 | -23.6 | -21.3 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 264.0 | 264.3 | 747.6 | 747.6 | 2848.4 | 2847.6 | 6.58 | 6.58 | 5.76 | 5.76 |
| August | 266.3 | 266.2 | 750.9 | 751.1 | 2860.1 | 2862.0 | 6.73 | 6.73 | 6.15 | 6.15 |
| September | 267.4 | 267.0 | 751.1 | 751.3 | 2874.6 | 2874.4 | 7.22 | 7.22 | 6.64 | 6.64 |
| October | 269.3 | 268.7 | 755.9 | 760.8 | 2893.8 | 2890.2 | 7.35 | 7.29 | 6.67 | 6.69 |
| November | 270.4 | 272.0* | 760.6 | 761.3* | 2912.7 | 2904.7* | 6.96 | 6.74* | 5.83 | 6.37* |
| December | 271.6 | 272.9 | 765.3 | 766.8 | 2931.5 | 2925.7 | 6.84 | 6.88 | 5.59 | 6.43 |
| January 1988 | 273.5 | 273.8 | 771.1 | 769.4 | 2953.6 | 2938.6 | 6.73 | 6.85 | 5.88 | 6.47 |
| February | 275.4 | 275.1 | 776.6 | 773.6 | 2974.1 | 2954.6 | 6.70 | 6.73 | 5.95 | 6.35 |
| March | 277.3 | 276.5 | 782.0 | 778.3 | 2994.7 | 2972.5 | 6.76 | 6.65 | 5.94 | 6.29 |
| April | 278.7 | 278.0 | 784.9 | 781.2 | 3015.3 | 2990.3 | 6.83 | 6.63 | 6.12 | 6.25 |
| May | 279.8 | 279.1 | 787.9 | 785.7 | 3026.9 | 3014.5 | 6.88 | 6.50 | 6.16 | 6.15 |
| June | 280.9 | 280.4 | 790.8 | 790.2 | 3038.4 | 3035.6 | 6.92 | 6.37 | 6.16 | 6.03 |
| July | 282.6 | 281.8 | 796.7 | 794.1 | 3059.2 | 3053.6 | 6.88 | 6.25 | 6.07 | 6.01 |
| August | 284.4 | 283.2 | 803.9 | 795.8 | 3080.0 | 3065.8 | 6.73 | 6.27 | 5.86 | 6.05 |
| September | 286.1 | 284.8 | 811.1 | 800.3 | 3100.9 | 3087.3 | 6.45 | 6.28 | 5.65 | 6.10 |
| October | 287.4 | 286.2 | 814.0 | 805.7 | 3115.6 | 3108.1 | 6.36 | 6.15 | 5.72 | 5.84 |
| November | 288.5 | 287.5 | 817.6 | 810.2 | 3130.3 | 3125.5 | 6.27 | 6.07 | 5.70 | 5.78 |
| December | 289.7 | 288.6 | 821.1 | 813.3 | 3145.0 | 3144.3 | 6.18 | 5.88 | 5.60 | 5.61 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 9.42 | 9.42 | 7.72 | 7.72 | 6.65 | 6.65 | 6.70 | 6.70 | 8.25 | 8.25 |
| August | 9.67 | 9.67 | 7.82 | 7.82 | 6.71 | 6.71 | 6.75 | 6.75 | 8.25 | 8.25 |
| September | 10.18 | 10.18 | 8.26 | 8.26 | 7.37 | 7.37 | 7.37 | 7.37 | 8.70 | 8.70 |
| October | 10.65 | 10.52 | 8.63 | 8.70 | 7.42 | 7.89 | 7.45 | 8.02 | 9.03 | 9.07 |
| November | 10.13 | 10.11* | 8.05 | 8.05* | 6.88 | 7.22* | 6.96 | 7.15* | 8.80 | 8.84* |
| December | 9.97 | 10.03 | 7.83 | 8.02 | 6.80 | 7.03 | 6.86 | 7.09 | 8.75 | 8.75 |
| January 1988 | 9.76 | 10.08 | 7.61 | 8.01 | 6.75 | 6.98 | 6.78 | 7.03 | 8.75 | 8.75 |
| February | 9.65 | 10.01 | 7.48 | 7.96 | 6.72 | 6.76 | 6.75 | 6.85 | 8.75 | 8.75 |
| March | 9.66 | 9.88 | 7.54 | 7.81 | 6.81 | 6.63 | 6.88 | 6.76 | 8.75 | 8.75 |
| April | 9.77 | 9.73 | 7.67 | 7.67 | 6.90 | 6.55 | 6.96 | 6.64 | 8.75 | 8.75 |
| May | 9.89 | 9.65 | 7.81 | 7.58 | 6.94 | 6.43 | 7.03 | 6.56 | 8.75 | 8.56 |
| June | 9.95 | 9.57 | 7.91 | 7.47 | 6.96 | 6.36 | 7.06 | 6.49 | 8.75 | 8.50 |
| July | 9.71 | 9.48 | 7.57 | 7.39 | 6.78 | 6.28 | 6.87 | 6.38 | 8.75 | 8.50 |
| August | 9.40 | 9.39 | 7.29 | 7.29 | 6.65 | 6.25 | 6.75 | 6.35 | 8.59 | 8.42 |
| September | 9.05 | 9.32 | 6.88 | 7.18 | 6.38 | 6.27 | 6.49 | 6.38 | 8.25 | 8.25 |
| October | 9.07 | 9.26 | 6.94 | 7.13 | 6.26 | 6.05 | 6.32 | 6.20 | 8.25 | 8.22 |
| November | 9.02 | 9.15 | 6.95 | 7.03 | 6.15 | 5.93 | 6.26 | 6.06 | 8.25 | 8.00 |
| December | 8.98 | 9.08 | 6.87 | 6.95 | 6.11 | 5.84 | 6.19 | 5.96 | 8.25 | 8.00 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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Economic Forecasting Center
College of Business Administration
404/651-3282

MONTHLY PROJECTIONS
December 1987

Dr. Donald Ratajczak, Director
For Release: January 12, 1988

## ITS ALL IN THE TIMING

According to conventional wisdom, October's stock market crash frightened the consumer. Weak consumer sales at Christmas and early in 1988 will be quickly recognized by manufacturers, who will curtail previously robust production programs to maintain tight inventories. Thus, the economy will slow its rate of growth early in 1988 but will find renewed vigor as the increased competitiveness of American industries caused by the declining dollar leads to sufficient foreign orders to offset any domestic sluggishness. Because manufacturing utilization rates are high, investment activity will barely slow, and the stock market trauma will be a distant memory to consumers toward the second half of 1988.

Although such a scenario certainly is possible, the presumed timing of consumer response is unusually rapid for such a substantial dip in stock values. Moreover, the substantial rally in stock prices preceding the slump was still working some of its magic upon consumer spending during the Christmas season. This explains why the consumer responded to the promotional efforts of retailers and automobile dealers. While Christmas was not a barn-burner, real sales appear to have been up slightly and most retailers approached their revised selling plans. Orders for the spring selling season will be cautious, especially in women's apparel. In addition, automobile manufacturers already are extending their Christmas closings and placing some other assembly plants on indefinite layoffs to remove inventory imbalances. However, the manufacturer continues to experience a fat order book, especially from foreign customers and, except for the automobile industry, there has been little attempt to scale back operations.

Moreover, an unusually mild fall has led to higher levels of construction activity than would have been predicted by economic conditions alone. Despite economic indicators that would suggest a substantial slowing in private nonresidential construction, the mild weather led to a 4.5% November surge in that component of expenditures. Housing activity also was unusually robust. When winter finally arrives in January, expenditures on utilities will spurt. In other words, several unusual and temporary events are generating greater economic activity than can be sustained.

Rather than realizing that the economic response to stock market trauma will be lagged, many producers probably will assume from this performance that the stock market crash had little effect. As a result, there may be little attempt to whittle away the rapidly rising inventories at the manufacturing level. Indeed, manufacturing inventory expansion at 0.8% per month, the rate that occurred in November, could be sustained if industrial activity continues to grow 5% per year after inflation. However, if there is a lagged consumer response to the stock market decline, as I anticipate, domestic sales will begin weakening notably in the spring. Inventory imbalances should quickly develop into the summer months, requiring a production correction by the fall. In short, the correct outlook for 1988 depends upon the appropriate timing of production decisions. More rapid economic expansion than expected early in the year, especially if it is concentrated in inventory investments, will set up significant economic weakness for later on.

Almost unnoticed during this period has been a dramatic widening in the spread between yields on commercial paper and on federal funds. Partially as a result of the substantial inventory buildup by manufacturers, and also from the buy-back of equity that has depleted cash positions in many corporations, yields on commercial paper have widened to almost 100 basis points beyond yields on federal funds. Yeilds on certificates of deposit have increased commensurately, as corporate treasurers have been borrowers rather than lenders during this stock repurchase period. Indeed, if everyone was not so convinced that interest rates were about to fall, the high CD yields late in December would have exerted substantial pressure to raise the prime rate.

Fortunately, the attempt by central banks early in January to disrupt the speculation in currency markets has met with considerable success. Until the massive intervention during January's first week, currency speculators almost always were winning by betting against the dollar. Under such circumstances, a significant short position against the dollar had developed. On January 4, however, all the major central banks moved decisively to support the dollar. When they again entered on January 5, even after the dollar had rallied substantially, many currency traders were forced to unwind their short positions. This has definitely improved near term prospects for the dollar's value and has reduced the need by the Federal Reserve to prop up interest rates domestically in an effort to support the dollar. Hopefully, greater Federal Reserve accommodation will now be forthcoming, causing a decrease in some of the sensitive short-term interest rates. If so, the commercial paper rate soon should settle back toward the federal funds rate, permitting the prime rate to remain at current levels.

Despite the success of the central bank intervention against currency speculators, the dollar's longer-term trend downward remains intact. Although trade deficits almost certainly will narrow from their record October levels, they will remain uncomfortably high throughout 1988. Indeed, the intervention is expected to be only successful for a few short months. By the spring, the dollar should be under renewed attack by foreign investors. Nevertheless, the dollar probably will reach fundamentally firm ground before the end of 1988, opening opportunities for increased foreign investment into the United States.

Although the return of normal winter weather has firmed up prices of energy materials, an imbalance between production and demand appears to remain in the Persian Gulf. After the heating season ends sometime in February, both oil and natural gas prices should again trend downward. At the present time, they are firming significantly. This is especially true of natural gas, where regulations concerning take-or-pay contracts appear to be diminishing the amount of natural gas currently being supplied on the spot market. Nevertheless, a significant excess production supply of natural gas appears to remain. Therefore, no further dramatic increases in those prices is now anticipated.

If energy material prices weaken again by February and March, as anticipated, inflationary pressures during the first half of 1988 should be relatively modest. Indeed, meat supplies also may be ample to excessive, causing stable to slightly declining grocery store prices into the spring. While underlying inflation may be gradually intensifying to the 4.5% range, measured inflation may actually fall to the 3.5% range. Of course, much higher inflation will then materialize in 1988's second half.

On the whole, forecasting 1988 not only depends upon timing but also upon properly weighting the positive or negative contributions of conflicting forces in most markets. Net exports will be contributing to economic growth while consumer activity will be much more restrained. Following increased construction activity as a result of mild weather, pressures for reduced construction expenditures will intensify. On the other hand, strong export growth could generate enough capacity pressures to sustain modest growth in capital spending.

The cross currents in inflation are represented by the impact of a falling dollar upon competing import and export commodities on the one hand, and the moderation of energy and food prices on the other. However, these conflicting forces will not remain in conflict during the latter half of 1988. At that time, higher inflationary pressures almost certainly will develop.

The pattern of weakening economic activity and strengthening inflationary pressures during the second half of 1988 also raises conflicts in the financial markets. Interest rates could move in either direction, but probably not very much. At the present time, it appears that the economic slowing will be more pronounced than the acceleration of inflation. As a result, a modest decline in interest rates currently is anticipated.

Finally, not enough investors appear to have learned their lesson about equity values. Already, investors are again talking about merger and acquisition premiums. Pretty soon, they will again be comparing the yields provided by equities in Japan versus the United States. Clearly, some of that yield differential is justified by the differences in prevailing interest rates. Nevertheless, there is some tendency for Japanese investors to accept lower near-term performance than their American counterparts. This could tend to increase some stock prices in the United States. When the economy appears stronger than had been anticipated early in 1988, the stock market may once again move percentage points above values that would be justified by prevailing fundamentals. If economic sluggishness then reappears later in the year, as anticipated, another return to earth is likely. While we did not forecast the rise and fall of the stock market in 1987, our analysis of virtually no increase in equity values by the end of 1987 proved to be very close to the mark. Somewhat better equity performance can be expected in 1988, but the path appears to include another roller coaster ride.

## Quarterly Profile of GNP

| | 1987-3 | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 4.3 | 3.2 | 1.1 | 1.5 | 1.3 | -0.7 | 2.8 | 2.0 |
| Price: | 2.8 | 3.9 | 3.3 | 3.4 | 4.0 | 4.3 | 3.0 | 3.5 |
| Nominal: | 7.3 | 7.0 | 4.4 | 5.0 | 5.4 | 3.6 | 6.0 | 5.6 |

## Monthly Statistical Highlights for December 1987

Payroll employment +325,000; index of hours worked -0.2% household employment 240,000; civilian unemployment rate 5.8%; personal income +0.7%; savings rate +3.8%; personal consumption +0.7%; retail sales +1.2%; auto sales 10.4 million units; housing starts -5.3%; housing permits +0.1%; construction expenditures -0.1%; business inventories +0.6%; orders for durable goods +0.4%; orders for nondefense capital goods +0.5%; industrial production +0.2%; CPI +0.2%; PPI +0.3%; consumption deflator +0.2%; leading indicators -0.4%; real GNP(AR) +3.8%; M1(AR) -5.1%; M2(AR) +3.0%.

## Monthly Statistical Highlights for January 1988

Payroll employment +202,000; index of hours worked +0.2%; household employment +224,000; civilian unemployment rate 5.8%; personal income +0.2%; savings rate +4.7%; personal consumption +0.4; retail sales -0.2%; auto sales 10.0 million units; housing starts -5.5%; housing permits -5.3%; construction expenditures -1.9%; business inventories +0.5%; orders for durable goods -1.9%; orders for nondefense capital goods -2.9%; industrial production -0.1%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%: leading indicators +0.6%; real GNP(AR) -0.6%; M1(AR) +5.4%; M2(AR) +7.1%.

## Commentary

Employment - Payroll employment was surprisingly strong in December as the workweek narrowed while more people were put on payrolls. In fact, the hours worked index actually declined slightly. The unusual surge in construction activity in November as a result of favorable weather was extended into December. Declines in retail employment along with some weakness in financial service employment was observed. The surge in the hourly earnings index during November appears to have been an aberration that does not reflect a reacceleration of wage inflation at this time. This is confirmed by a slight decline in this measure for December.

Initial unemployment claims have increased significantly, with the insured unemployment rate rising to 2.2% during the survey week. Normally, this would suggest an increase in the civilian unemployment rate, but the relatively sluggish growth of the labor force over the past year resulted in a drop of that rate to 5.8%.

Personal Income and Outlays - Personal income was significantly depressed by a $40 billion swing in farm income as a result of subsidy disbursement. A slight rebound in farm income is expected for December, but not to the October levels. In addition, a $5 billion increase in interest income probably reflected rising interest rates prior to the stock market crash and should not be reflected in growing incomes in December. In addition, wage and salary gains are expected to be much less in December than they were in November. There is very little sign of increased desired savings at the present time, however, the strong growth in outlays appears to be the result of incentives provided by automobile dealers and general merchandisers. In addition, the exceptionally slow growth in service expenditures during November was caused by especially sluggish stock market transactions accompanied by an unusually mild weather pattern. A more normal weather pattern in December should cause more rapid growth in service expenditures.

Because of upward revisions in estimated expenditures for durable goods, personal consumption spending is higher than anticipated in our post-crash November forecast. We do not believe that our original estimates were overreactions. Rather, consumers still are willing to respond to incentives, but are expected to leave the market when the incentives diminish. Therefore, sluggish consumer activity should be more prevalent in the first and second quarters.

There also appears to be a discrepancy between retail sales by auto dealers and the auto units sold. While this discrepancy could be the result of reduced van and truck sales, all the evidence suggests a contrary pattern. In addition, durable expenditures no longer are tracking auto sales. This suggests that something is wrong with the auto sales estimates, which will now need to be revised upward.

Construction - Weather appears to be the major factor in the surprisingly strong construction estimates for November. Some estimates indicate that the temperature was four degrees above normal and November was especially dry. These combined influences certainly enticed increased activity. While housing starts zoomed upward, especially for multiple units, housing permits actually declined. Typically, multiple permits and starts are virtually coincident indicators. More normal weather in December should cause a decline in housing activity, especially multi-family units. Severe winter weather in January probably will cause a significant dip in housing activity.

The weather which influenced housing starts also appears to have altered construction expenditures. Nonresidential activity was surprisingly strong, although orders also remained surprisingly strong. However, orders in November decreased 8%. Nevertheless, orders for nonresidential construction remained 3% above previous year levels. Apparently, financing was amply available for developers, despite the reduced incentives provided by the 1986 tax act and the apparent overbuilding in almost all metropolitan areas. Public construction also benefitted from the favorable weather in November and should now fade off during the winter months.

The construction deflator zoomed by nearly 1% in November. This could be the result of reignited inflationary pressures in the housing market. However, a more likely explanation is a shift in the composition of construction activity toward expenditures which command higher deflators. If so, the more normal activity that should result when more normal weather could actually generate a slight decrease in the construction price index. Otherwise, an upward revision in our GNP estimates for the construction components would be required.

Business Activity - The most surprising part of business activity has been the surge in manufacturing inventories. In November, manufacturing inventories increased 0.8%. Some of this gain was the result of unanticipated automobile inventories, which now will be reduced as a result of sales incentives and production curtailments in December and January. However, an increased desire to hold manufacturing inventories also appears to have developed. A long list of commodities in short supply surfaced in the latest purchasing managers survey. Strong inventory investment probably can be expected in the manufacturing sector through the first half of 1988 until declining domestic demand reduces price pressures. Then, a typical inventory cycle could well develop in the latter part of the year.

Durable goods orders eased slightly in November as a result of sharp declines in orders for computers and office equipment. Some analysts have interpreted this decline as early signs of a significant reduction in investment activity. It may only indicate that the new products provided by some of the large computer companies are not exciting a significant amount of interest. Nevertheless, the traditional falloff in durable goods activity at the beginning of the year is expected to restrain capital spending programs in the first quarter of 1988.

Industrial production continues to grow sharply through November. A further increase in December appears assured as a result of further inventory building and a rebound in utility activity. However, a slump in automobile production in January should restrain industrial production momentarily. Then, further industrial activity is anticipated until an inventory correction begins in the latter part of 1988.

Prices - The CPI report for November was a slight surprise, as a dramatic increase in vegetable prices was absent from consumer spending. The reason for this discrepancy is still unclear. In December, vegetable prices declined, as expected from the PPI estimates of that month. Moderate inflation should continue through the first part of 1988 as oil prices begin settling to reflect increased supply. Despite a momentary rebound in oil prices, significant declines are anticipated as the harsh winter weather subsides. Prices then are expected to reaccelerate in the second half of the year, especially as oil prices once again should rebound at that time.

Miscellaneous - Although the stock market rallied strongly in the second half of December, stock prices for the month average about the same as November. More significantly, initial unemployment claims will be subtracting 0.3 percentage points from the leading indicators. With the workweek also shortening, the leading indicators could fall significantly in December following the 1.7% drop in November. However, a third consecutive decline does not currently appear likely. Detracting from such a possibility is a significant further rebound in stock market prices.

Most of the recent changes in trade balances have been the result of seasonal forces. October is a substantial month for importing manufactured goods, while November is a relatively lackluster month. Therefore, significant improvement in November should be anticipated. Nevertheless, export activity is not growing as robustly as earlier in the year, except in the agricultural sector, while imports continue to grow. While the trade balances should improve in 1988, the pattern of improvement will continue to be erractic and should not be as dramatic as anticipated in the November forecast. The major mitigating force against further improvement is the relatively strong consumer outlays for the first half of the year.

## Financial Markets

The liquidity that the Federal Reserve poured into the economy in late October and early November has largely been withdrawn. Although further growth is developing in the monetary base, the rate of increase has definitely slowed. Apparently, the Federal Reserve is pursuing a federal funds target of just under 7%. However, the inventory buildup in manufacturing along with the stock buy-back program has significantly reduced the near-term liquidity of corporate America. This has resulted in higher commercial paper rates and higher CD rates. Indeed, if concern about economic weakness were not so widespread, the CD rate prevailing in December would have led to an increase in the prime rate. Short-term interest rates are expected to ease in the months ahead, as inventory investment will remain high but should not intensify from current levels. In addition, much of the stock buy-back activity is diminishing.

According to flow of fund analysis, the corporate sector is significantly increasing its borrowings during the first half of the year. Both fixed investment and inventory investment activity will be stronger than the growth of internally generated cash. As a result, increased corporate borrowing should be anticipated, at least until the inventory correction begins later in the year.

Of course, the household sector should be significantly adding to its presence in credit markets as mortgage activity should ease while savings rates rise. In the second half of the year, however, a rebound is expected in the housing market. Government borrowings are expected to remain strong through most of 1988 with no discernable trend. As a result, foreign investor sentiment will be a major factor in dictating interest rate movements through much of 1988. Now that the dollar has rallied against some of the major currencies, some foreign investors may be more willing to enter dollar asset commitments. This could provide a slight decrease in interest rate pressures. However, most investors probably still believe that the long-term direction of the dollar is downward. Therefore, the recent dollar rally will not entice that many foreign investors into our markets. Only later in the year, when the trade deficits clearly are eroding, will foreign investors begin to believe that the bottom of the dollar's value against major currencies has been reached. At that point, significant increases in foreign lending could result in a modest dip in interest rates.

Equity Markets - Following the stock market collapse in October, our analysis suggests that stock market values are appropriate for current economic conditions. As interest rates are expected to remain relatively stable and as economic growth is expected to gradually slow, these fundamentals should not significantly change. A slight positive tilt in stock market prices is possible in the first half of 1988 because of stronger economic conditions than some analysts may have assumed. In the latter half of the year, however, an inventory correction could lead to reduced economic activity and declining profitability. While interest rates also may come down, that combination would not be sufficient to prevent another decline in stock market values. For the year as a whole, stock market prices probably will show little direction. There is a distinct possibility that a repeat of 1987 could materialize. Such a repeat would combine significant stock market advances early in the year with a stronger economy and somewhat higher interest rates than is currently anticipated. Any further rise in interest rates later in the year then would trigger another abrupt collapse toward fundamentals, once again restoring equity values near current levels.

Under such scenarios, investors could be encouraged to buy some equity positions for the short-term. However, if interest rates begin rising more sharply than currently contemplated, withdrawal from the equity markets once again would be encouraged.

Capital goods industries in the United States will do surprisingly well as they should be increasing their share of domestic sales even as the total domestic pie increases only slightly. Of course, export-oriented issues also will be doing well. As there is not expected to be significant direction in interest rates, interest-sensitive stocks will generally perform in line with the market, although utilities probably will outperform the market. Greater concern will develop toward service-oriented companies, except for computer software issues. On the whole, investing in 1988 should not be terribly treacherous for those who enter the markets at current levels. If a speculative fling developes, as it did in 1987, investors should be quicker to withdraw to the sidelines to protect their gains. On the whole, the Dow Jones probably will end 1988 slightly over 2100, even if it takes a trip up toward the 2500 level in the interim. A significant decline in the Dow is not anticipated for this year unless prices have already climbed to that 2500 vicinity.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 102126 | 102126 | 120.6 | 120.6 | 112727 | 112727 | 6.0 | 6.0 | 173.2 | 173.2 |
| August | 102278 | 102275 | 121.2 | 121.2 | 113081 | 113081 | 6.0 | 6.0 | 174.1 | 174.1 |
| September | 102410 | 102434 | 120.2 | 120.4 | 112772 | 112772 | 5.9 | 5.9 | 174.7 | 174.6 |
| October | 102685 | 102970 | 121.5 | 121.9 | 113456 | 113187 | 5.9 | 6.0 | 175.1 | 174.8 |
| November | 102780 | 103244 | 121.7 | 122.2 | 113516 | 113500 | 5.8 | 5.9 | 175.5 | 175.7 |
| December | 102873 | 103389* | 121.8 | 122.4* | 113577 | 113669* | 5.8 | 5.9* | 175.9 | 176.0* |
| January 1988 | 102986 | 103591 | 121.8 | 122.6 | 113753 | 113893 | 5.8 | 5.8 | 176.3 | 176.4 |
| February | 103081 | 103719 | 121.7 | 122.7 | 113935 | 114041 | 5.8 | 5.8 | 176.8 | 177.0 |
| March | 103175 | 103848 | 121.7 | 122.8 | 114117 | 114231 | 5.8 | 5.7 | 177.5 | 177.6 |
| April | 103346 | 103888 | 121.9 | 122.9 | 114298 | 114385 | 5.8 | 5.7 | 178.0 | 178.2 |
| May | 103502 | 104105 | 122.1 | 123.0 | 114439 | 114521 | 5.8 | 5.7 | 178.4 | 178.7 |
| June | 103658 | 104318 | 122.4 | 123.2 | 114580 | 114746 | 5.9 | 5.6 | 178.9 | 179.2 |
| July | 103796 | 104532 | 122.5 | 123.4 | 114723 | 114953 | 5.9 | 5.6 | 179.5 | 179.8 |
| August | 103905 | 104661 | 122.6 | 123.5 | 114840 | 115133 | 5.9 | 5.6 | 180.2 | 180.4 |
| September | 104044 | 104746 | 122.7 | 123.6 | 114957 | 115229 | 6.0 | 5.6 | 180.8 | 181.0 |
| October | 104207 | 104817 | 122.8 | 123.6 | 115118 | 115330 | 5.9 | 5.7 | 181.3 | 181.5 |
| November | 104293 | 104830 | 122.8 | 123.5 | 115325 | 115376 | 5.9 | 5.8 | 181.7 | 182.1 |
| December | 104286 | 104798 | 122.7 | 123.4 | 115223 | 115341 | 6.0 | 6.0 | 182.2 | 182.7 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 3.737 | 3.739 | 2.210 | 2.210 | 107.0 | 100.1 | 3.176 | 3.178 | 3.069 | 3.078 |
| August | 3.758 | 3.761 | 2.229 | 2.229 | 70.2 | 70.6 | 3.192 | 3.195 | 3.122 | 3.124 |
| September | 3.784 | 3.783 | 2.242 | 2.240 | 106.6 | 95.7 | 3.213 | 3.213 | 3.106 | 3.117 |
| October | 3.802 | 3.851 | 2.256 | 2.257 | 124.3 | 163.8 | 3.229 | 3.276 | 3.105 | 3.112 |
| November | 3.818 | 3.834 | 2.265 | 2.273 | 121.8 | 125.2 | 3.243 | 3.254 | 3.121 | 3.129 |
| December | 3.835 | 3.860* | 2.273 | 2.283* | 121.4 | 125.9* | 3.258 | 3.276* | 3.136 | 3.150* |
| January 1988 | 3.839 | 3.868 | 2.282 | 2.293 | 140.7 | 156.4 | 3.291 | 3.318 | 3.150 | 3.162 |
| February | 3.859 | 3.887 | 2.292 | 2.305 | 147.0 | 165.2 | 3.314 | 3.339 | 3.167 | 3.174 |
| March | 3.878 | 3.906 | 2.303 | 2.316 | 144.9 | 168.9 | 3.329 | 3.354 | 3.184 | 3.185 |
| April | 3.891 | 3.925 | 2.312 | 2.328 | 143.6 | 170.0 | 3.340 | 3.370 | 3.196 | 3.200 |
| May | 3.903 | 3.942 | 2.323 | 2.337 | 134.9 | 173.0 | 3.346 | 3.387 | 3.211 | 3.214 |
| June | 3.915 | 3.961 | 2.333 | 2.349 | 124.1 | 173.3 | 3.353 | 3.401 | 3.229 | 3.228 |
| July | 3.932 | 3.979 | 2.344 | 2.362 | 123.6 | 180.1 | 3.366 | 3.414 | 3.242 | 3.234 |
| August | 3.949 | 3.998 | 2.355 | 2.374 | 122.2 | 165.1 | 3.376 | 3.428 | 3.254 | 3.263 |
| September | 3.965 | 4.015 | 2.366 | 2.385 | 104.6 | 170.0 | 3.386 | 3.441 | 3.282 | 3.271 |
| October | 3.978 | 4.030 | 2.375 | 2.394 | 121.3 | 168.6 | 3.398 | 3.452 | 3.277 | 3.283 |
| November | 3.988 | 4.044 | 2.384 | 2.401 | 106.5 | 161.3 | 3.403 | 3.462 | 3.297 | 3.301 |
| December | 3.999 | 4.059 | 2.393 | 2.409 | 89.3 | 155.2 | 3.409 | 3.474 | 3.320 | 3.319 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 2974.5 | 2983.6 | 417.1 | 424.6 | 984.6 | 984.6 | 1572.7 | 1574.4 | 2501.9 | 2509.4 |
| August | 3026.3 | 3028.8 | 447.4 | 447.8 | 991.9 | 990.1 | 1587.0 | 1591.0 | 2534.8 | 2536.6 |
| September | 3010.2 | 3021.5 | 433.3 | 438.0 | 987.7 | 984.4 | 1589.3 | 1599.0 | 2514.3 | 2516.2 |
| October | 3008.8 | 3015.5 | 415.1 | 413.4 | 992.3 | 984.1 | 1601.4 | 1618.0 | 2505.2 | 2498.6 |
| November | 3024.4 | 3031.9 | 413.6 | 423.6 | 997.0 | 983.7 | 1613.8 | 1624.6 | 2505.7 | 2505.1* |
| December | 3039.1 | 3052.8* | 414.5 | 433.2* | 1000.8 | 987.9* | 1623.8 | 1631.7* | 2511.7 | 2517.6 |
| January 1988 | 3052.6 | 3064.0 | 418.5 | 429.7 | 1002.6 | 990.4 | 1631.5 | 1643.9 | 2514.5 | 2518.5 |
| February | 3068.9 | 3075.8 | 422.2 | 425.8 | 1004.6 | 995.8 | 1642.1 | 1654.2 | 2521.7 | 2522.1 |
| March | 3085.5 | 3086.7 | 426.0 | 428.0 | 1006.7 | 999.2 | 1652.8 | 1659.5 | 2527.0 | 2525.1 |
| April | 3097.4 | 3101.1 | 425.3 | 431.6 | 1010.6 | 1000.9 | 1661.5 | 1668.6 | 2528.5 | 2529.4 |
| May | 3111.6 | 3114.7 | 423.7 | 433.4 | 1016.2 | 1004.4 | 1671.7 | 1676.9 | 2531.8 | 2533.5 |
| June | 3129.2 | 3128.1 | 425.7 | 434.4 | 1021.5 | 1008.9 | 1682.0 | 1684.8 | 2537.9 | 2537.5 |
| July | 3142.0 | 3133.9 | 425.8 | 427.2 | 1024.8 | 1013.4 | 1691.4 | 1693.3 | 2540.0 | 2532.3 |
| August | 3152.9 | 3162.4 | 423.9 | 440.9 | 1027.7 | 1018.9 | 1701.3 | 1702.6 | 2540.6 | 2547.1 |
| September | 3180.5 | 3170.1 | 438.2 | 435.4 | 1030.8 | 1023.3 | 1711.5 | 1711.4 | 2554.6 | 2544.6 |
| October | 3174.9 | 3182.1 | 416.9 | 431.2 | 1035.4 | 1030.0 | 1722.6 | 1720.9 | 2539.9 | 2542.7 |
| November | 3194.2 | 3199.0 | 421.3 | 433.8 | 1040.1 | 1035.4 | 1732.8 | 1729.8 | 2545.2 | 2547.1 |
| December | 3216.6 | 3216.7 | 429.2 | 436.1 | 1044.6 | 1040.2 | 1743.0 | 1740.4 | 2555.0 | 2552.7 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 127.06 | 127.06 | 20.30 | 20.30 | 10.5 | 10.5 | 77.33 | 77.33 | 29.44 | 29.44 |
| August | 129.27 | 128.93 | 20.18 | 20.26 | 12.4 | 12.4 | 77.98 | 77.79 | 31.11 | 30.88 |
| September | 128.76 | 126.79 | 20.17 | 20.17 | 10.1 | 11.7 | 77.93 | 77.08 | 30.66 | 29.53 |
| October | 127.01 | 125.66 | 20.27 | 19.90 | 9.3 | 9.3 | 78.08 | 77.25 | 28.66 | 28.50 |
| November | 126.74 | 125.86 | 20.36 | 20.25 | 9.0 | 9.9 | 78.45 | 77.26 | 27.93 | 28.34 |
| December | 128.23 | 127.43* | 20.31 | 20.36* | 9.4 | 10.4* | 78.75 | 77.50* | 29.17 | 29.57* |
| January 1988 | 128.96 | 127.15 | 20.25 | 20.16 | 9.6 | 10.0 | 78.89 | 77.63 | 29.79 | 29.36 |
| February | 129.97 | 127.12 | 20.20 | 20.24 | 9.9 | 9.6 | 79.05 | 78.05 | 30.72 | 28.83 |
| March | 130.43 | 127.65 | 20.19 | 20.26 | 10.0 | 9.7 | 79.21 | 78.32 | 31.03 | 29.07 |
| April | 130.39 | 128.19 | 20.15 | 20.20 | 9.9 | 10.0 | 79.52 | 78.45 | 30.72 | 29.54 |
| May | 129.78 | 128.68 | 20.14 | 20.19 | 9.6 | 10.1 | 79.96 | 78.73 | 29.68 | 29.76 |
| June | 132.42 | 129.15 | 20.20 | 20.16 | 10.3 | 10.2 | 80.38 | 79.08 | 31.84 | 29.91 |
| July | 132.56 | 128.67 | 20.17 | 20.21 | 10.2 | 9.6 | 80.64 | 79.43 | 31.75 | 29.03 |
| August | 131.47 | 130.67 | 20.10 | 20.23 | 9.8 | 10.5 | 80.87 | 79.86 | 30.50 | 30.58 |
| September | 133.81 | 130.39 | 20.09 | 20.15 | 10.8 | 10.1 | 81.11 | 80.21 | 32.61 | 30.03 |
| October | 130.29 | 130.42 | 20.15 | 20.23 | 8.9 | 9.4 | 81.47 | 80.73 | 28.67 | 29.46 |
| November | 131.30 | 131.16 | 20.25 | 20.27 | 9.1 | 9.6 | 81.84 | 81.16 | 29.21 | 29.73 |
| December | 132.81 | 131.79 | 20.34 | 20.30 | 9.4 | 9.7 | 82.20 | 81.53 | 30.27 | 29.96 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 1.598 | 1.598 | 1.143 | 1.143 | 1.487 | 1.487 | 393.4 | 398.5 | 341.1 | 346.5 |
| August | 1.598 | 1.585 | 1.111 | 1.111 | 1.502 | 1.502 | 399.6 | 402.9 | 345.6 | 350.4 |
| September | 1.669 | 1.685 | 1.168 | 1.211 | 1.493 | 1.502 | 399.8 | 410.9 | 344.7 | 357.1 |
| October | 1.592 | 1.523 | 1.106 | 1.102 | 1.501 | 1.463 | 397.0 | 410.6 | 342.2 | 357.5 |
| November | 1.577 | 1.637 | 1.093 | 1.119 | 1.473 | 1.453 | 396.2 | 419.5 | 340.7 | 361.9 |
| December | 1.558 | 1.550* | 1.080 | 1.085* | 1.426 | 1.455* | 395.7 | 415.3* | 339.4 | 358.6* |
| January 1988 | 1.486 | 1.464 | 1.005 | 1.021 | 1.391 | 1.378 | 391.0 | 407.6 | 334.8 | 350.8 |
| February | 1.431 | 1.469 | 0.973 | 1.038 | 1.354 | 1.355 | 388.3 | 406.8 | 331.9 | 349.2 |
| March | 1.418 | 1.452 | 0.950 | 1.024 | 1.326 | 1.361 | 386.9 | 400.4 | 330.1 | 342.5 |
| April | 1.420 | 1.479 | 0.946 | 1.036 | 1.330 | 1.384 | 384.9 | 403.3 | 327.6 | 344.1 |
| May | 1.439 | 1.496 | 0.955 | 1.033 | 1.335 | 1.413 | 383.1 | 398.5 | 325.2 | 339.1 |
| June | 1.456 | 1.507 | 0.964 | 1.042 | 1.346 | 1.426 | 382.1 | 400.1 | 323.3 | 339.4 |
| July | 1.483 | 1.473 | 0.992 | 1.027 | 1.369 | 1.407 | 385.2 | 402.0 | 325.6 | 340.1 |
| August | 1.492 | 1.480 | 1.001 | 1.029 | 1.394 | 1.409 | 388.3 | 402.7 | 328.0 | 340.1 |
| September | 1.498 | 1.504 | 1.010 | 1.036 | 1.406 | 1.417 | 391.7 | 402.8 | 330.8 | 339.9 |
| October | 1.519 | 1.534 | 1.017 | 1.053 | 1.423 | 1.443 | 394.8 | 403.6 | 332.3 | 340.0 |
| November | 1.528 | 1.538 | 1.026 | 1.047 | 1.430 | 1.455 | 397.5 | 406.4 | 333.5 | 341.8 |
| December | 1.536 | 1.558 | 1.035 | 1.055 | 1.439 | 1.462 | 400.2 | 408.9 | 334.6 | 343.0 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 121.7 | 125.8 | 73.8 | 74.6 | 197.9 | 198.0 |
| August | 124.5 | 129.6 | 74.5 | 73.0 | 200.6 | 200.2 |
| September | 123.8 | 127.9 | 74.8 | 77.9 | 201.2 | 205.1 |
| October | 122.4 | 129.1 | 74.2 | 76.7 | 200.4 | 204.8 |
| November | 121.8 | 134.9 | 74.8 | 77.5 | 199.6 | 207.1 |
| December | 121.4 | 131.6* | 75.4 | 76.1* | 198.9 | 207.6* |
| January 1988 | 120.6 | 129.5 | 75.8 | 75.6 | 194.6 | 202.5 |
| February | 119.8 | 129.8 | 76.4 | 76.0 | 192.1 | 201.0 |
| March | 119.0 | 128.6 | 77.1 | 76.3 | 190.8 | 195.5 |
| April | 119.3 | 128.4 | 77.5 | 76.9 | 188.1 | 198.0 |
| May | 119.1 | 128.6 | 77.1 | 77.1 | 186.9 | 192.8 |
| June | 119.2 | 129.1 | 77.3 | 77.4 | 185.6 | 193.6 |
| July | 118.8 | 128.5 | 77.9 | 77.5 | 188.5 | 196.0 |
| August | 118.9 | 129.2 | 78.4 | 77.9 | 191.0 | 195.6 |
| September | 119.0 | 129.5 | 79.0 | 78.3 | 193.7 | 195.0 |
| October | 119.3 | 129.3 | 79.2 | 78.6 | 196.3 | 195.7 |
| November | 119.5 | 128.6 | 79.4 | 79.0 | 198.6 | 198.8 |
| December | 119.8 | 128.4 | 79.4 | 79.2 | 201.0 | 201.3 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 323.3 | 323.3 | 109.17 | 109.17 | 31.98 | 31.98 | 28.10 | 28.10 |
| August | 325.1 | 325.4 | 106.62 | 106.68 | 29.52 | 29.54 | 28.47 | 28.49 |
| September | 324.2 | 326.7 | 107.80 | 109.35 | 29.15 | 29.75 | 29.12 | 29.71 |
| October | 326.6 | 328.6 | 106.95 | 111.09 | 29.33 | 30.41 | 29.16 | 28.99 |
| November | 327.8 | 331.1* | 105.48 | 110.65 | 29.25 | 29.67 | 29.24 | 28.36 |
| December | 329.3 | 333.4 | 103.97 | 111.09* | 28.65 | 29.82* | 28.60 | 29.04* |
| January 1988 | 331.5 | 335.3 | 104.46 | 108.96 | 28.67 | 28.96 | 28.25 | 28.53 |
| February | 332.9 | 336.6 | 104.65 | 108.90 | 28.43 | 28.95 | 28.40 | 28.50 |
| March | 334.6 | 337.9 | 105.14 | 110.46 | 28.46 | 29.26 | 28.52 | 28.66 |
| April | 336.1 | 339.4 | 104.87 | 110.61 | 28.69 | 29.28 | 28.56 | 28.79 |
| May | 338.0 | 341.0 | 105.56 | 111.25 | 28.73 | 29.43 | 28.69 | 29.04 |
| June | 339.5 | 342.7 | 105.29 | 110.46 | 28.65 | 29.17 | 28.83 | 28.76 |
| July | 341.0 | 344.6 | 105.16 | 111.21 | 28.64 | 29.26 | 28.59 | 28.92 |
| August | 342.2 | 346.1 | 105.94 | 111.65 | 28.73 | 29.44 | 28.75 | 29.18 |
| September | 343.4 | 347.3 | 106.65 | 111.13 | 28.75 | 29.56 | 28.73 | 29.34 |
| October | 344.9 | 348.3 | 107.13 | 111.25 | 28.94 | 29.50 | 28.82 | 29.26 |
| November | 345.8 | 349.0 | 107.48 | 110.96 | 29.06 | 29.46 | 28.98 | 29.20 |
| December | 346.8 | 349.9 | 107.26 | 110.85 | 29.01 | 29.42 | 28.80 | 29.42 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 677.7 | 677.7 | 8.91 | 8.91 | 130.6 | 130.6 | 81.1 | 81.1 |
| August | 678.8 | 678.8 | 8.80 | 8.80 | 131.0 | 131.2 | 81.2 | 81.4 |
| September | 678.3 | 682.4 | 9.53 | 9.52 | 131.2 | 130.9 | 81.2 | 81.0 |
| October | 681.5 | 687.9 | 9.26 | 9.13 | 131.7 | 132.0 | 81.4 | 81.5 |
| November | 684.9 | 692.0* | 9.10 | 9.16 | 132.0 | 132.5 | 81.4 | 81.7 |
| December | 688.0 | 696.2 | 9.15 | 9.21* | 132.1 | 132.8* | 81.3 | 81.7* |
| January 1988 | 691.2 | 699.7 | 9.23 | 9.28 | 131.8 | 132.7 | 81.0 | 81.4 |
| February | 694.3 | 703.2 | 9.32 | 9.35 | 131.5 | 133.0 | 80.7 | 81.4 |
| March | 697.9 | 706.5 | 9.40 | 9.43 | 131.3 | 133.3 | 80.4 | 81.4 |
| April | 700.3 | 709.6 | 9.28 | 9.40 | 131.3 | 133.6 | 80.2 | 81.5 |
| May | 704.1 | 712.9 | 9.37 | 9.42 | 131.5 | 133.9 | 80.2 | 81.5 |
| June | 707.1 | 716.5 | 9.50 | 9.38 | 131.7 | 134.3 | 80.2 | 81.6 |
| July | 709.6 | 720.5 | 9.43 | 9.48 | 131.9 | 134.6 | 80.2 | 81.6 |
| August | 712.3 | 723.6 | 9.62 | 9.53 | 132.2 | 134.8 | 80.3 | 81.5 |
| September | 714.9 | 727.1 | 9.38 | 9.50 | 132.5 | 134.7 | 80.4 | 81.3 |
| October | 717.6 | 729.9 | 9.43 | 9.28 | 132.0 | 134.3 | 79.5 | 80.9 |
| November | 720.5 | 731.8 | 9.52 | 9.42 | 130.3 | 134.0 | 78.3 | 80.5 |
| December | 723.1 | 733.5 | 9.60 | 9.48 | 128.6 | 133.5 | 77.1 | 80.1 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 341.0 | 341.0 | 297.4 | 297.4 | 322.6 | 322.1 | 117.6 | 117.6 |
| August | 342.7 | 342.6 | 297.3 | 297.4 | 323.0 | 323.0 | 117.8 | 117.8 |
| September | 343.4 | 343.2 | 298.2 | 298.3 | 324.0 | 323.3 | 118.1 | 118.2 |
| October | 344.9 | 344.5 | 298.5 | 297.6 | 325.0 | 324.9 | 118.5 | 118.7* |
| November | 346.3 | 345.5 | 299.4 | 298.5 | 325.7 | 325.4 | 118.8 | 119.1 |
| December | 347.7 | 346.2* | 300.3 | 299.4* | 326.5 | 326.1* | 119.1 | 119.3 |
| January 1988 | 348.6 | 347.4 | 300.7 | 300.2 | 327.3 | 326.9 | 119.6 | 119.7 |
| February | 349.5 | 348.4 | 301.1 | 301.0 | 328.4 | 327.6 | 120.1 | 120.0 |
| March | 350.5 | 349.1 | 301.5 | 300.8 | 329.5 | 327.5 | 120.6 | 120.3 |
| April | 351.8 | 350.3 | 302.3 | 301.7 | 330.1 | 328.4 | 120.9 | 120.7 |
| May | 353.2 | 351.3 | 303.2 | 302.5 | 330.6 | 329.5 | 121.2 | 121.0 |
| June | 354.7 | 352.5 | 304.2 | 303.4 | 331.2 | 330.6 | 121.4 | 121.3 |
| July | 355.7 | 354.0 | 304.9 | 304.6 | 332.1 | 331.5 | 121.7 | 121.8 |
| August | 356.8 | 355.3 | 305.6 | 305.7 | 333.0 | 332.8 | 122.1 | 122.2 |
| September | 357.7 | 356.5 | 306.3 | 306.6 | 333.9 | 331.4 | 122.5 | 122.6 |
| October | 359.1 | 358.0 | 307.1 | 307.9 | 335.8 | 335.0 | 122.9 | 123.1 |
| November | 360.5 | 359.6 | 308.2 | 309.2 | 337.7 | 335.9 | 123.3 | 123.5 |
| December | 361.9 | 360.8 | 309.3 | 310.1 | 339.6 | 337.2 | 123.7 | 123.9 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 118.9 | 118.9 | 106.6 | 106.8 | 112.1 | 112.1 | 127.6 | 127.6 | 115.3 | 114.9 |
| August | 119.4 | 119.4 | 107.5 | 107.5 | 112.6 | 112.6 | 128.2 | 128.2 | 115.6 | 115.0 |
| September | 119.6 | 120.1 | 107.8 | 107.7 | 112.8 | 113.2 | 128.5 | 129.0 | 115.8 | 115.1 |
| October | 120.1 | 120.7 | 107.7 | 107.5 | 113.3 | 113.6 | 129.0 | 129.7 | 116.0 | 114.9 |
| November | 120.7 | 121.0* | 107.6 | 107.4* | 113.7 | 114.0* | 129.5 | 130.2* | 116.3 | 115.9 |
| December | 121.0 | 121.3 | 107.6 | 107.7 | 114.1 | 114.2 | 130.1 | 130.5 | 116.6 | 115.8* |
| January 1988 | 121.4 | 121.7 | 108.0 | 108.0 | 114.4 | 114.4 | 130.6 | 131.0 | 116.8 | 116.2 |
| February | 121.7 | 122.0 | 108.2 | 108.2 | 114.6 | 114.5 | 131.0 | 131.4 | 117.0 | 116.5 |
| March | 122.1 | 122.2 | 108.4 | 108.4 | 114.6 | 114.7 | 131.4 | 131.8 | 117.2 | 116.9 |
| April | 122.5 | 122.6 | 108.5 | 108.5 | 115.0 | 115.0 | 131.9 | 132.3 | 117.5 | 117.2 |
| May | 122.9 | 122.9 | 108.7 | 108.7 | 115.4 | 115.3 | 132.5 | 132.7 | 117.8 | 117.5 |
| June | 123.3 | 123.3 | 108.9 | 108.9 | 115.8 | 115.6 | 133.1 | 133.1 | 118.2 | 117.9 |
| July | 123.7 | 123.8 | 109.2 | 109.2 | 116.0 | 116.0 | 133.5 | 133.6 | 118.3 | 118.2 |
| August | 124.1 | 124.2 | 109.4 | 109.4 | 116.3 | 116.4 | 133.9 | 134.2 | 118.4 | 118.4 |
| September | 124.5 | 124.6 | 109.7 | 109.4 | 116.6 | 116.8 | 134.3 | 134.7 | 118.4 | 118.5 |
| October | 125.0 | 125.1 | 109.9 | 110.0 | 117.1 | 117.2 | 134.9 | 135.3 | 118.8 | 118.7 |
| November | 125.5 | 125.6 | 110.0 | 110.2 | 117.7 | 117.7 | 135.5 | 135.8 | 119.2 | 118.9 |
| December | 125.9 | 126.0 | 109.9 | 110.4 | 118.4 | 118.1 | 136.1 | 136.3 | 119.6 | 119.2 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | -16.47 | -16.48 | 191.4 | 191.6 | 4487 | 4488 | 3815 | 3816 | -17.6 | -17.6 |
| August | -15.67 | -15.68 | 192.6 | 192.8 | 4516 | 4524 | 3834 | 3840 | -13.9 | -19.1 |
| September | -16.10 | -14.08 | 192.0 | 193.1 | 4533 | 4559 | 3838 | 3857 | -10.5 | -18.8 |
| October | -14.76 | -17.63 | 189.7 | 193.5 | 4556 | 4586 | 3845 | 3864 | -8.0 | -15.4 |
| November | -14.33 | -15.11* | 188.8 | 190.2 | 4578 | 4598 | 3854 | 3861 | -7.6 | -14.7 |
| December | -13.91 | -14.36 | 186.9 | 189.5* | 4600 | 4621 | 3862 | 3873 | -8.9 | -13.8 |
| January 1988 | -13.73 | -14.53 | 187.5 | 190.6 | 4615 | 4633 | 3859 | 3871 | -8.5 | -13.5 |
| February | -13.87 | -14.09 | 188.2 | 191.3 | 4629 | 4652 | 3854 | 3877 | -7.8 | -11.3 |
| March | -14.02 | -13.82 | 188.4 | 191.5 | 4644 | 4671 | 3851 | 3883 | -9.3 | -10.5 |
| April | -13.73 | -15.01 | 188.0 | 191.0 | 4665 | 4687 | 3859 | 3883 | -6.5 | -9.6 |
| May | -13.46 | -14.43 | 188.6 | 190.7 | 4688 | 4710 | 3868 | 3893 | -6.1 | -10.2 |
| June | -13.15 | -14.16 | 188.2 | 189.8 | 4712 | 4730 | 3881 | 3899 | -7.2 | -10.5 |
| July | -15.32 | -15.29 | 188.4 | 190.3 | 4731 | 4747 | 3887 | 3897 | -7.4 | -11.6 |
| August | -14.42 | -14.11 | 188.7 | 189.7 | 4754 | 4774 | 3894 | 3907 | -7.5 | -13.1 |
| September | -12.61 | -13.43 | 188.5 | 189.5 | 4778 | 4793 | 3900 | 3909 | -7.9 | -13.9 |
| October | -12.95 | -15.18 | 187.8 | 189.2 | 4790 | 4801 | 3897 | 3900 | -15.6 | -14.8 |
| November | -13.43 | -13.32 | 187.6 | 189.0 | 4798 | 4812 | 3891 | 3896 | -19.7 | -14.3 |
| December | -13.26 | -12.83 | 188.2 | 189.4 | 4800 | 4828 | 3880 | 3897 | -23.6 | -15.6 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 264.0 | 260.1 | 747.6 | 747.6 | 2848.4 | 2848.0 | 6.58 | 6.58 | 5.76 | 5.76 |
| August | 266.3 | 262.3 | 750.9 | 751.1 | 2860.1 | 2863.4 | 6.73 | 6.73 | 6.15 | 6.15 |
| September | 267.4 | 263.2 | 751.1 | 751.3 | 2874.6 | 2877.1 | 7.22 | 7.22 | 6.64 | 6.64 |
| October | 269.3 | 265.4 | 755.9 | 760.7 | 2893.8 | 2894.3 | 7.35 | 7.29 | 6.67 | 6.69 |
| November | 270.4 | 267.3 | 760.6 | 756.5 | 2912.7 | 2894.0 | 6.96 | 6.69 | 5.83 | 6.19 |
| December | 271.6 | 268.5* | 765.3 | 753.2* | 2931.5 | 2901.1* | 6.84 | 6.75* | 5.59 | 6.40* |
| January 1988 | 273.5 | 269.3 | 771.1 | 756.5 | 2953.6 | 2917.8 | 6.73 | 6.88 | 5.88 | 6.44 |
| February | 275.4 | 270.6 | 776.6 | 761.2 | 2974.1 | 2934.9 | 6.70 | 6.96 | 5.95 | 6.48 |
| March | 277.3 | 271.9 | 782.0 | 764.3 | 2994.7 | 2951.5 | 6.76 | 6.85 | 5.94 | 6.27 |
| April | 278.7 | 273.2 | 784.9 | 769.1 | 3015.3 | 2972.1 | 6.83 | 6.61 | 6.12 | 6.15 |
| May | 279.8 | 274.7 | 787.9 | 774.7 | 3026.9 | 2992.8 | 6.88 | 6.58 | 6.16 | 6.07 |
| June | 280.9 | 276.3 | 790.8 | 781.4 | 3038.4 | 3014.7 | 6.92 | 6.53 | 6.16 | 6.03 |
| July | 282.6 | 277.5 | 796.7 | 783.9 | 3059.2 | 3031.8 | 6.88 | 6.29 | 6.07 | 5.86 |
| August | 284.4 | 278.9 | 803.9 | 786.2 | 3080.0 | 3046.0 | 6.73 | 6.34 | 5.86 | 5.95 |
| September | 286.1 | 280.4 | 811.1 | 789.3 | 3100.9 | 3063.3 | 6.45 | 6.32 | 5.65 | 5.98 |
| October | 287.4 | 282.0 | 814.0 | 793.5 | 3115.6 | 3080.7 | 6.36 | 6.34 | 5.72 | 6.07 |
| November | 288.5 | 283.5 | 817.6 | 796.6 | 3130.3 | 3099.2 | 6.27 | 6.37 | 5.70 | 6.01 |
| December | 289.7 | 284.9 | 821.1 | 802.0 | 3145.0 | 3117.3 | 6.18 | 6.25 | 5.60 | 5.98 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 9.42 | 9.42 | 7.72 | 7.72 | 6.65 | 6.65 | 6.70 | 6.70 | 8.25 | 8.25 |
| August | 9.67 | 9.67 | 7.82 | 7.82 | 6.71 | 6.71 | 6.75 | 6.75 | 8.25 | 8.25 |
| September | 10.18 | 10.18 | 8.26 | 8.26 | 7.37 | 7.37 | 7.37 | 7.37 | 8.70 | 8.70 |
| October | 10.65 | 10.52 | 8.63 | 8.70 | 7.42 | 7.89 | 7.45 | 8.02 | 9.03 | 9.07 |
| November | 10.13 | 10.01 | 8.05 | 7.95 | 6.88 | 7.17 | 6.96 | 7.24 | 8.80 | 8.78 |
| December | 9.97 | 10.10* | 7.83 | 8.04* | 6.80 | 7.83* | 6.86 | 7.73* | 8.75 | 8.75* |
| January 1988 | 9.76 | 9.94 | 7.61 | 7.87 | 6.75 | 7.26 | 6.78 | 7.33 | 8.75 | 8.75 |
| February | 9.65 | 9.91 | 7.48 | 7.83 | 6.72 | 7.13 | 6.75 | 7.08 | 8.75 | 8.75 |
| March | 9.66 | 9.88 | 7.54 | 7.81 | 6.81 | 7.04 | 6.88 | 7.01 | 8.75 | 8.75 |
| April | 9.77 | 9.56 | 7.67 | 7.51 | 6.90 | 6.86 | 6.96 | 6.95 | 8.75 | 8.75 |
| May | 9.89 | 9.62 | 7.81 | 7.53 | 6.94 | 6.63 | 7.03 | 6.84 | 8.75 | 8.75 |
| June | 9.95 | 9.68 | 7.91 | 7.61 | 6.96 | 6.68 | 7.06 | 6.80 | 8.75 | 8.75 |
| July | 9.71 | 9.53 | 7.57 | 7.48 | 6.78 | 6.54 | 6.87 | 6.67 | 8.75 | 8.63 |
| August | 9.40 | 9.61 | 7.29 | 7.58 | 6.65 | 6.36 | 6.75 | 6.46 | 8.59 | 8.50 |
| September | 9.05 | 9.64 | 6.88 | 7.62 | 6.38 | 6.40 | 6.49 | 6.50 | 8.25 | 8.50 |
| October | 9.07 | 9.60 | 6.94 | 7.63 | 6.26 | 6.45 | 6.32 | 6.57 | 8.25 | 8.50 |
| November | 9.02 | 9.58 | 6.95 | 7.62 | 6.15 | 6.49 | 6.26 | 6.60 | 8.25 | 8.50 |
| December | 8.98 | 9.60 | 6.87 | 7.63 | 6.11 | 6.40 | 6.19 | 6.54 | 8.25 | 8.50 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

3/8/88 W1880-3

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404/651-3282

# MONTHLY PROJECTIONS
## January 1988

Dr. Donald Ratajczak, Director
For Release: February 15, 1988

## SLOW GROWTH IS LIKELY IN NEXT YEAR

Following the release of the preliminary GNP estimates for the fourth quarter, several economic analysts assumed that the sharp increase in inventory investment would lead to a significant inventory correction early in 1988. However, the most recent information shows that only a very modest pause in economic activity occurred in January. This pause should be followed by a renewed economic advance.

Initial unemployment claims moved up sharply at the end of December and continued to grow through the third week of January. However, these claims have since decreased. Despite, relatively modest growth in the money stock, short-term interest rates were trending downward. Recently, however, monetary aggregates have begun to grow fairly vigorously and interest rates have ceased their downward trend. This suggests that money demand is now beginning to exert itself. Also, the sharp decline in sensitive prices appears to have been arrested in recent days. Sensitive prices in the PPI increased 1.3% in January. Even the Journal of Commerce index, which had been trending downward through much of January, has been rising. These are all signs that economic activity may once again be increasing.

These signs of continuing economic expansion are somewhat surprising in light of continued accumulation of inventories at the retail and wholesale levels. Indeed, business inventories increased 0.8% during December, almost certainly necessitating an upward revision in fourth quarter GNP. With upward revisions in retail sales and an unexpectedly narrow trade deficit for December, real GNP in the fourth quarter may be revised upward to 4.8% or more. However, the heavy dependence of GNP growth upon inventory accumulations will remain. Thus, the need to liquidate inventories, at least durable goods, at the wholesale and retail level remains. Indeed, we expect to see reduced inventory accumulations during the next few months. Nevertheless, reasonably strong consumer spending, a rebound in capital goods expenditures, and a continuing narrowing of

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the real trade deficit should combine to offset the adverse effects from the inventory correction.

On the surface, the January PPI suggests that inflation once again is warming up. Not only did the index increase 0.4%, but the index excluding food and energy rose 0.5%. Of course, large increases in food prices were offset by large decreases in petroleum prices in January. Since petroleum prices appear to have stabilized, inflationary fears are beginning to rise. However, the increase in food prices appears to be temporary. California had a problem with its vegetable crop which accentuated the run-up in vegetable prices. Also, meat prices rebounded after three months of significant declines. More moderate food prices should be expected in the months ahead. Of greater significance was the importance of one-time price increases for some heavy equipment and especially periodicals and newspapers. If these items were excluded, the PPI less food and energy would have been up 0.2%.

Of course, such reasoning can always find special cases for price movements. Thus, it will be important to observe much more moderate price changes on the PPI in February. If such moderation does not appear, then increasing inflationary fears may be justified. (The rebenching of the PPI occurred too late to adjust this month's data for that series. Adjustments will be made next month.)

The shrinking trade deficit has encouraged foreign investors to once again increase their holdings of dollar-based assets. This has generated an increase in the value of the dollar, which is not expected to last. In fact, the improvement in trade balances should not last too much longer. Although the deficit declined in December, imports showed no drop off despite weakening in the value and volume of oil. Our seasonal factors for imports suggest that after seasonal adjustment, imports actually rose by $1 billion. This suggests that when less favorable seasonal conditions begin developing early in 1988, the trade deficit will rise. This increase will begin to generate adverse effects upon the dollar's value. Indeed, the Federal Reserve may be forced to defend the dollar before mid-year by encouraging higher short-term interest rates. Thus, the current downward trend in short-term interest rates appears to be short-lived.

### Quarterly Profile of GNP

| | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|
| Real: | 4.2 | 0.5 | 1.2 | 1.1 | 1.6 | 2.9 | 2.1 |
| Price: | 2.7 | 2.4 | 3.0 | 4.1 | 4.3 | 3.0 | 3.0 |
| Nominal: | 6.7 | 3.0 | 4.2 | 5.3 | 5.9 | 5.9 | 5.6 |

### Monthly Statistical Highlights for January 1988

Personal income +0.1%; savings rate 5.6%; personal consumption +0.2%; housing starts +1.2%; housing permits -1.0%; construction expenditures -3.9%; business inventories +0.4%; orders for durable goods -2.4%; orders for nondefense capital goods -9.7%; industrial production +0.1%; consumption deflator +0.2%; leading indicator -0.1%; real GNP(AR) -0.6%.

## Monthly Statistical Highlights for February 1988

Payroll employment +113,000; index of hours worked -0.1%; household employment +40,000; civilian unemployment rate 5.9%; personal income +0.4%; savings rate 5.8%; personal consumption +0.4%; retail trade +0.3%; auto sales 10.2 million units; housing starts +1.9%; housing permits -0.4%; construction expenditures +0.7%; business inventories +0.4%; orders for durable goods -0.1%; orders for nondefense capital goods +0.2%; industrial production -0.1%; CPI +0.3%; PPI +0.2%; consumption deflator +0.2%; leading indicator -0.3%; real GNP(AR) -0.6%; M1(AR) +10.2%; M2(AR) +7.4%.

## Commentary

Employment - Payroll employment showed the modest increase in January that had been anticipated. However, the workweek increased slightly. In addition, the index of hours worked rose. These figures showed more strength in manufacturing than had been anticipated as the result of a surge in nonelectrical machinery employment and in most nondurables. A 155,000 rebound in retail employment merely reflected the fact that those people who were not hired during Christmas were not fired afterwards. Much more modest changes in retail employment are expected in the next few months. A 65,000 decline in government appears to be a seasonal aberration that will be reversed next month. On the other hand, significant closures of auto plants should lead to further declines in motor vehicle employment. Much of the 50,000 decline in construction probably was weather-related.

Initial unemployment claims finally decreased in the last week of January. However, claims are up sharply for the month and the rate has increased to 2.3%. This should lead to a slight increase in the unemployment rate next month. The report also showed a surprisingly large 0.5% increase in the hourly earnings index. The index is now 2.9% higher than the previous year. This still is a relatively modest rate of wage inflation, but some acceleration appears to be developing.

Personal Income and Outlays - This month is the time when increases in social security will significantly depress personal income. There is not expected to be a significant swing in farm income as there was in the previous report. On the other hand, the slowing in interest rates should begin to take away interest income. As a result, relatively little gain in January personal income is anticipated when the report is released.

Consumption should grow more vigorously, however. Unusually cold weather will significantly increase utility consumption. Upward revision in retail sales for December suggests that the consumer has not retrenched at this time. A continuation of relatively strong retail sales growth in January also supports the assessment that consumer retrenchment remains to be done. Indeed, greater than originally projected strength in consumer activity early in the year may now develop. However, this should not be construed as a desire for more consumption at prevailing income levels. Rather, some weakening in consumption is expected to develop later in the year.

Construction - Weather will be the dominant factor in altering construction in January. Significant declines are expected in all categories. However, there appears to be further underlying declines in nonresidential construction activity. This weather-related decline also should effect housing starts.

The surge in the construction deflator in November was partially retraced in December. Apparently, some pricing aberrations occurred in the sample that overstated the November gain. This suggests that prices will begin increasing again in January, but not at the rate previously forecast.

Business Activity - The surge in business inventories in December was definitely unexpected, both by ourselves and by the Department of Commerce. As a result, some upward revisions in the fourth-quarter GNP estimates appear to be in order. In addition, durable inventories at the wholesale and retail level remain unusually heavy. Some reduction of these inventories will occur as a result of production curtailments in the automobile industry. Inventories also are heavy for nondurables at retail and wholesale levels. However, these inventories are thought to be largely imported products. If that is the case, import activity will slow down in a few months while these inventories are gradually worked off.

The surge in durable goods orders in December was a major surprise, even if it largely entailed sharp increases in aircraft orders. There also was a significant gain in orders for primary metals, which probably was the result of the rapid price run-up for copper and the beginning of a price run-up for aluminum. Now that copper prices are trending downward, orders probably will slow for primary metals. Orders for electrical equipment were surprisingly weak, suggesting that technology-related companies probably will not perform well in the early part of 1988.

Because so many of the gains in orders were the result of aircraft, which is notoriously volatile, a drop in orders is anticipated in January. In addition, the sharp surge in defense shipments appears to be a one-month surprise that should be reversed in the next few months.

Industrial production is expected to be buffeted by offsetting factors in the next few months. An inventory correction probably will significantly reduce the production of consumer goods. On the other hand, some growth in industrial materials and increases in utility activity should be putting some upward pressures upon industrial production measures. Indeed, industrial production, after growing much more slowly than GNP in the past three years is now beginning to accelerate relative to GNP. This is exactly what has been expected for the overall economy. An increase is anticipated in the industrial component of the economy. Moreover, this increase in industrial activity should lead to pressures upon capacity utilization that will generate stronger orders for capital goods and stronger shipments than had previously been anticipated.

Prices - The sharp run-up in consumer durable prices in December appears to be the result of composition shifts in favor of higher priced automobiles and a sharp increase in jewelry components. Now that gold prices have fallen dramatically in January, these durable goods prices should stabilize for several months. Consumer nondurables will be pressured downward as a result of further decreases in oil prices. The temporary surge in food prices that developed in the PPI for January will not be sufficient to offset the weakness in petroleum and apparel prices.

Despite the absence of any recessionary tendencies and the presence of some acceleration in wage cost pressures, prices are estimated to grow more slowly than originally anticipated. Some of the slowing is the result of greater weakness in the energy component early in 1988 than hand previously been anticipated. In addition, food prices should soon settle from their January surge and exert downward pressures for the first half of 1988. Inflation will reappear, however, during the second half of the year.

Miscellaneous - The merchandise trade deficit has decreased significantly in the past two months, although seasonal factors account for more than half of that improvement. Adverse seasonals will begin to develop in the first half of 1988. As a result, generally improving trade positions will not be clearly reflected in the monthly merchandise trade reports.

Further declines appear to be in store for the leading indicators. Although the abrupt drop in the indicators in November was largely the result of stock market prices, the more recent declines appear to be the result of rising initial unemployment claims. In addition, sensitive prices are not rising as rapidly as they were in the fall. This suggests that an extended period of relatively weak leading indicators could develop. Indeed, the indicators for January could fall more than anticipated if orders correct from their December surge.

## Financial Markets

Following some Federal Reserve easing after the stock market crash, the Federal Reserve acted quickly to withdraw those surplus funds. This exerted some modest upward pressures upon short-term interest rates toward the end of the year and also accentuated weakness in M1. However, the relatively slow growth of M2 also suggests that money demand was weak.

The Federal Reserve has now apparently moved more aggressively toward an easing posture. The money stock has increased even as interest rates are beginning to decline. The reason for this easier monetary policy is the combined evidence of relative economic sluggishness, contained inflation - at least until the PPI report was released - and a stronger dollar. Now that the monetary aggregates have increased significantly and interest rates have declined modestly, the Federal Reserve probably will be more reluctant to ease further. It is our belief that the Federal Reserve will accommodate whatever money demand is generated at current or slightly lower federal funds rates but will not move toward a more aggressive easing posture. This will lead to a significant acceleration in money growth in the next few weeks followed by increases in short-term interest rates by mid-year. These increasing rates, in turn, should lead to slowing in M1 growth as deposits move toward noncheckable liquid assets.

It is interesting to note that much of the weakness in interest rates has been from private demand to the Federal Reserve. Just as commercial paper rates soared in December and then came down dramatically in January, the federal funds rate was pressed slightly upward in December and then was pushed downward significantly in January. Currently, interest rates are sufficiently low in the short-term market to justify a further modest decrease in the prime rate. Our analysis, however, suggests that interest rates will bottom out by mid-year and begin moving upward again in the second half of the year.

Equity Markets - This economic outlook suggests that corporate profits are improving in quality as the inflationary distortions of inventory profits are diminished. In addition, a smaller portion of corporate profitability is being generated by especially favorable tax considerations for treating capital assets. However, the relatively sluggish growth in the economy as 1988 begins probably will exert some downward pressures upon corporate profitability. When all these forces are considered, our estimates of operating profits plus tax liabilities probably will be unchanged to slightly higher in the first half of 1988. As interest rates are trending downward, this would tend to exert some upward pressures upon stock market values. By mid-year, however, much of this position will be reversed. The quality of profits will be declining while interest rates will be rising. Nevertheless, sufficient gains will develop in corporate profitability to probably preserve the modest stock market gains that should develop in the first half of this year. Economic conditions are not present to create a significant decline in equity values in 1988. On the other hand, the sideways economy that currently is being projected should not dramatically improve equity vales either.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 102126 | 102126 | 120.6 | 120.6 | 112727 | 112727 | 6.0 | 6.0 | 173.2 | 173.2 |
| August | 102278 | 102275 | 121.2 | 121.2 | 113081 | 113050 | 6.0 | 6.0 | 174.1 | 174.1 |
| September | 102410 | 102434 | 120.2 | 120.4 | 112772 | 112872 | 5.9 | 5.9 | 174.7 | 174.6 |
| October | 102685 | 102983 | 121.5 | 121.9 | 113456 | 113210 | 5.9 | 6.0 | 175.1 | 174.9 |
| November | 102780 | 103285 | 121.7 | 122.2 | 113516 | 113504 | 5.8 | 5.9 | 175.5 | 175.8 |
| December | 102873 | 103596 | 121.8 | 121.0 | 113577 | 113744 | 5.8 | 5.8 | 175.9 | 175.4 |
| January 1988 | 102986 | 103703 | 121.8 | 122.2 | 113753 | 114129 | 5.8 | 5.8 | 176.3 | 176.3 |
| February | 103081 | 103816* | 121.7 | 122.1* | 113935 | 114169* | 5.8 | 5.9* | 176.8 | 176.6* |
| March | 103175 | 103962 | 121.7 | 122.2 | 114117 | 114239 | 5.8 | 5.9 | 177.5 | 176.8 |
| April | 103346 | 104153 | 121.9 | 122.4 | 114298 | 114455 | 5.8 | 5.8 | 178.0 | 177.3 |
| May | 103502 | 104356 | 122.1 | 122.6 | 114439 | 114692 | 5.8 | 5.7 | 178.4 | 177.7 |
| June | 103658 | 104507 | 122.4 | 122.8 | 114580 | 114978 | 5.9 | 5.5 | 178.9 | 178.2 |
| July | 103796 | 104721 | 122.5 | 123.0 | 114723 | 115120 | 5.9 | 5.5 | 179.5 | 178.6 |
| August | 103905 | 104995 | 122.6 | 123.2 | 114840 | 115309 | 5.9 | 5.5 | 180.2 | 179.1 |
| September | 104044 | 105192 | 122.7 | 123.4 | 114957 | 115536 | 6.0 | 5.4 | 180.8 | 179.7 |
| October | 104207 | 105312 | 122.8 | 123.5 | 115118 | 115713 | 5.9 | 5.4 | 181.3 | 180.2 |
| November | 104293 | 105438 | 122.8 | 123.4 | 115325 | 115864 | 5.9 | 5.4 | 181.7 | 180.7 |
| December | 104286 | 105357 | 122.7 | 123.3 | 115223 | 115783 | 6.0 | 5.6 | 182.2 | 181.2 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 3.737 | 3.739 | 2.210 | 2.210 | 107.0 | 100.1 | 3.176 | 3.178 | 3.069 | 3.078 |
| August | 3.758 | 3.761 | 2.229 | 2.229 | 70.2 | 70.6 | 3.192 | 3.195 | 3.122 | 3.124 |
| September | 3.784 | 3.783 | 2.242 | 2.240 | 106.6 | 95.7 | 3.213 | 3.213 | 3.106 | 3.117 |
| October | 3.802 | 3.854 | 2.256 | 2.258 | 124.3 | 181.9 | 3.229 | 3.279 | 3.105 | 3.097 |
| November | 3.818 | 3.836 | 2.265 | 2.272 | 121.8 | 145.2 | 3.243 | 3.257 | 3.121 | 3.112 |
| December | 3.835 | 3.865 | 2.273 | 2.281 | 121.4 | 153.9 | 3.258 | 3.282 | 3.136 | 3.128 |
| January 1988 | 3.839 | 3.869* | 2.282 | 2.283* | 140.7 | 185.4* | 3.291 | 3.317* | 3.150 | 3.132* |
| February | 3.859 | 3.885 | 2.292 | 2.290 | 147.0 | 193.2 | 3.314 | 3.334 | 3.167 | 3.144 |
| March | 3.878 | 3.904 | 2.303 | 2.302 | 144.9 | 195.3 | 3.329 | 3.352 | 3.184 | 3.157 |
| April | 3.891 | 3.923 | 2.312 | 2.316 | 143.6 | 194.7 | 3.340 | 3.367 | 3.196 | 3.172 |
| May | 3.903 | 3.941 | 2.323 | 2.326 | 134.9 | 192.4 | 3.346 | 3.381 | 3.211 | 3.189 |
| June | 3.915 | 3.960 | 2.333 | 2.338 | 124.1 | 198.4 | 3.353 | 3.396 | 3.229 | 3.198 |
| July | 3.932 | 3.976 | 2.344 | 2.348 | 123.6 | 196.4 | 3.366 | 3.407 | 3.242 | 3.211 |
| August | 3.949 | 3.992 | 2.355 | 2.360 | 122.2 | 176.7 | 3.376 | 3.418 | 3.254 | 3.241 |
| September | 3.965 | 4.011 | 2.366 | 2.373 | 104.6 | 178.9 | 3.386 | 3.432 | 3.282 | 3.253 |
| October | 3.978 | 4.029 | 2.375 | 2.384 | 121.3 | 189.1 | 3.398 | 3.445 | 3.277 | 3.256 |
| November | 3.988 | 4.045 | 2.384 | 2.390 | 106.5 | 178.6 | 3.403 | 3.457 | 3.297 | 3.278 |
| December | 3.999 | 4.058 | 2.393 | 2.397 | 89.3 | 168.8 | 3.409 | 3.465 | 3.320 | 3.296 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 2974.5 | 2983.6 | 417.1 | 424.6 | 984.6 | 984.6 | 1572.7 | 1574.4 | 2501.9 | 2509.4 |
| August | 3026.3 | 3028.8 | 447.4 | 447.8 | 991.9 | 990.1 | 1587.0 | 1591.0 | 2534.8 | 2536.6 |
| September | 3010.2 | 3021.5 | 433.3 | 438.0 | 987.7 | 984.4 | 1589.3 | 1599.0 | 2514.3 | 2516.2 |
| October | 3008.8 | 3000.3 | 415.1 | 404.2 | 992.3 | 981.7 | 1601.4 | 1614.4 | 2505.2 | 2489.2 |
| November | 3024.4 | 3014.5 | 413.6 | 412.2 | 997.0 | 984.9 | 1613.8 | 1617.4 | 2505.7 | 2494.3 |
| December | 3039.1 | 3030.6 | 414.5 | 424.9 | 1000.8 | 983.5 | 1623.8 | 1622.2 | 2511.7 | 2506.2 |
| January 1988 | 3052.6 | 3035.7* | 418.5 | 418.7* | 1002.6 | 983.6* | 1631.5 | 1633.4* | 2514.5 | 2505.7* |
| February | 3068.9 | 3047.6 | 422.2 | 417.7 | 1004.6 | 989.3 | 1642.1 | 1640.6 | 2521.7 | 2510.6 |
| March | 3085.5 | 3060.1 | 426.0 | 419.2 | 1006.7 | 992.4 | 1652.8 | 1648.5 | 2527.0 | 2517.5 |
| April | 3097.4 | 3075.3 | 425.3 | 422.7 | 1010.6 | 995.3 | 1661.5 | 1657.3 | 2528.5 | 2523.6 |
| May | 3111.6 | 3091.2 | 423.7 | 425.8 | 1016.2 | 999.2 | 1671.7 | 1666.2 | 2531.8 | 2529.4 |
| June | 3129.2 | 3099.8 | 425.7 | 421.8 | 1021.5 | 1001.1 | 1682.0 | 1676.9 | 2537.9 | 2527.3 |
| July | 3142.0 | 3112.3 | 425.8 | 418.6 | 1024.8 | 1006.3 | 1691.4 | 1687.4 | 2540.0 | 2527.6 |
| August | 3152.9 | 3142.6 | 423.9 | 435.4 | 1027.7 | 1010.9 | 1701.3 | 1696.3 | 2540.6 | 2544.1 |
| September | 3180.5 | 3154.0 | 438.2 | 433.6 | 1030.8 | 1014.6 | 1711.5 | 1705.8 | 2554.6 | 2544.4 |
| October | 3174.9 | 3156.2 | 416.9 | 421.5 | 1035.4 | 1020.3 | 1722.6 | 1714.4 | 2539.9 | 2537.7 |
| November | 3194.2 | 3178.0 | 421.3 | 427.6 | 1040.1 | 1025.6 | 1732.8 | 1724.8 | 2545.2 | 2545.2 |
| December | 3216.8 | 3195.6 | 429.2 | 429.2 | 1044.6 | 1030.8 | 1743.0 | 1735.6 | 2555.0 | 2548.2 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 127.06 | 127.06 | 20.30 | 20.30 | 10.5 | 10.5 | 77.33 | 77.33 | 29.44 | 29.44 |
| August | 129.27 | 128.93 | 20.18 | 20.26 | 12.4 | 12.4 | 77.98 | 77.79 | 31.11 | 30.88 |
| September | 128.76 | 126.79 | 20.17 | 20.17 | 10.1 | 11.7 | 77.93 | 77.08 | 30.66 | 29.53 |
| October | 127.01 | 125.63 | 20.27 | 19.92 | 9.3 | 9.3 | 78.08 | 76.97 | 28.66 | 28.74 |
| November | 126.74 | 125.77 | 20.36 | 20.20 | 9.0 | 9.9 | 78.45 | 77.02 | 27.93 | 28.55 |
| December | 128.23 | 126.68 | 20.31 | 20.34 | 9.4 | 10.9 | 78.75 | 77.08 | 29.17 | 29.25 |
| January 1988 | 128.96 | 125.91* | 20.25 | 20.11* | 9.6 | 10.4 | 78.89 | 77.04* | 29.79 | 28.76* |
| February | 129.97 | 126.24 | 20.20 | 20.22 | 9.9 | 10.2* | 79.05 | 77.49 | 30.72 | 28.53 |
| March | 130.43 | 126.65 | 20.19 | 20.25 | 10.0 | 9.8 | 79.21 | 77.73 | 31.03 | 28.67 |
| April | 130.39 | 127.29 | 20.15 | 20.22 | 9.9 | 10.0 | 79.52 | 77.96 | 30.72 | 29.11 |
| May | 129.78 | 127.95 | 20.14 | 20.26 | 9.6 | 10.2 | 79.96 | 78.26 | 29.68 | 29.43 |
| June | 132.42 | 127.64 | 20.20 | 20.15 | 10.3 | 10.0 | 80.38 | 78.41 | 31.84 | 29.08 |
| July | 132.56 | 127.68 | 20.17 | 20.21 | 10.2 | 9.7 | 80.64 | 78.82 | 31.75 | 28.65 |
| August | 131.47 | 129.99 | 20.10 | 20.25 | 9.8 | 10.5 | 80.87 | 79.18 | 30.50 | 30.56 |
| September | 133.81 | 130.07 | 20.09 | 20.33 | 10.8 | 10.3 | 81.11 | 79.47 | 32.61 | 30.27 |
| October | 130.29 | 129.11 | 20.15 | 20.26 | 8.9 | 9.5 | 81.47 | 79.92 | 28.67 | 28.93 |
| November | 131.30 | 130.23 | 20.25 | 20.43 | 9.1 | 9.8 | 81.84 | 80.33 | 29.21 | 29.47 |
| December | 132.81 | 130.83 | 20.34 | 20.46 | 9.4 | 9.8 | 82.20 | 80.74 | 30.27 | 29.63 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 1.598 | 1.598 | 1.143 | 1.143 | 1.487 | 1.487 | 393.4 | 398.5 | 341.1 | 346.5 |
| August | 1.598 | 1.585 | 1.111 | 1.111 | 1.502 | 1.502 | 399.6 | 402.9 | 345.6 | 350.4 |
| September | 1.669 | 1.685 | 1.168 | 1.211 | 1.493 | 1.502 | 399.8 | 402.8 | 344.7 | 350.1 |
| October | 1.592 | 1.537 | 1.106 | 1.105 | 1.501 | 1.463 | 397.0 | 403.5 | 342.2 | 351.2 |
| November | 1.577 | 1.639 | 1.093 | 1.110 | 1.473 | 1.469 | 396.2 | 411.3 | 340.7 | 354.8 |
| December | 1.558 | 1.374 | 1.080 | 1.023 | 1.426 | 1.340 | 395.7 | 409.7 | 339.4 | 354.6 |
| January 1988 | 1.486 | 1.390* | 1.005 | 0.996* | 1.391 | 1.327* | 391.0 | 393.8* | 334.8 | 340.4* |
| February | 1.431 | 1.417 | 0.973 | 1.006 | 1.354 | 1.322 | 388.3 | 396.6 | 331.9 | 341.9 |
| March | 1.418 | 1.443 | 0.950 | 1.022 | 1.326 | 1.356 | 386.9 | 391.1 | 330.1 | 336.3 |
| April | 1.420 | 1.458 | 0.946 | 1.029 | 1.330 | 1.365 | 384.9 | 391.5 | 327.6 | 336.1 |
| May | 1.439 | 1.498 | 0.955 | 1.052 | 1.335 | 1.406 | 383.1 | 392.6 | 325.2 | 335.8 |
| June | 1.456 | 1.473 | 0.964 | 1.032 | 1.346 | 1.392 | 382.1 | 394.8 | 323.3 | 336.9 |
| July | 1.483 | 1.492 | 0.992 | 1.046 | 1.369 | 1.416 | 385.2 | 395.1 | 325.6 | 336.3 |
| August | 1.492 | 1.484 | 1.001 | 1.035 | 1.394 | 1.403 | 388.3 | 394.7 | 328.0 | 335.1 |
| September | 1.498 | 1.527 | 1.010 | 1.066 | 1.406 | 1.446 | 391.7 | 394.9 | 330.8 | 334.4 |
| October | 1.519 | 1.517 | 1.017 | 1.059 | 1.423 | 1.435 | 394.8 | 396.9 | 332.3 | 334.9 |
| November | 1.528 | 1.532 | 1.026 | 1.065 | 1.430 | 1.449 | 397.5 | 398.1 | 333.5 | 335.1 |
| December | 1.536 | 1.538 | 1.035 | 1.072 | 1.439 | 1.455 | 400.2 | 401.7 | 334.6 | 337.3 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 121.7 | 125.8 | 73.8 | 74.6 | 197.9 | 198.0 |
| August | 124.5 | 129.6 | 74.5 | 73.0 | 200.6 | 200.2 |
| September | 123.8 | 126.0 | 74.8 | 77.9 | 201.2 | 198.9 |
| October | 122.4 | 128.7 | 74.2 | 76.8 | 200.4 | 198.6 |
| November | 121.8 | 133.8 | 74.8 | 77.7 | 199.6 | 199.8 |
| December | 121.4 | 129.3 | 75.4 | 79.6 | 198.9 | 200.8 |
| January 1988 | 120.6 | 125.9* | 75.8 | 75.8* | 194.6 | 192.1* |
| February | 119.8 | 126.8 | 76.4 | 77.2 | 192.1 | 192.6 |
| March | 119.0 | 126.3 | 77.1 | 77.5 | 190.8 | 187.3 |
| April | 119.3 | 125.5 | 77.5 | 77.9 | 188.1 | 188.1 |
| May | 119.1 | 125.8 | 77.1 | 77.5 | 186.9 | 187.3 |
| June | 119.2 | 125.9 | 77.3 | 78.1 | 185.6 | 190.8 |
| July | 118.8 | 125.1 | 77.9 | 78.5 | 188.5 | 191.5 |
| August | 118.9 | 124.5 | 78.4 | 78.3 | 191.0 | 191.9 |
| September | 119.0 | 124.3 | 79.0 | 78.8 | 193.7 | 191.8 |
| October | 119.3 | 124.5 | 79.2 | 79.2 | 196.3 | 193.2 |
| November | 119.5 | 124.8 | 79.4 | 79.6 | 198.6 | 193.7 |
| December | 119.8 | 125.3 | 79.4 | 79.7 | 201.0 | 196.7 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 323.3 | 323.3 | 109.17 | 109.17 | 31.98 | 31.98 | 28.10 | 28.10 |
| August | 325.1 | 325.4 | 106.62 | 106.68 | 29.52 | 29.54 | 28.47 | 28.49 |
| September | 324.2 | 326.7 | 107.80 | 109.35 | 29.15 | 29.75 | 29.12 | 29.71 |
| October | 326.6 | 328.6 | 106.95 | 111.09 | 29.33 | 30.41 | 29.16 | 28.99 |
| November | 327.8 | 331.8 | 105.48 | 110.95 | 29.25 | 30.09 | 29.24 | 28.62 |
| December | 329.3 | 333.2 | 103.97 | 116.41 | 28.65 | 33.56 | 28.60 | 30.47 |
| January 1988 | 331.5 | 334.8* | 104.46 | 113.62* | 28.67 | 30.29* | 28.25 | 29.06* |
| February | 332.9 | 335.8 | 104.65 | 112.48 | 28.43 | 30.36 | 28.40 | 29.01 |
| March | 334.6 | 337.1 | 105.14 | 113.82 | 28.46 | 30.93 | 28.52 | 29.25 |
| April | 336.1 | 338.1 | 104.87 | 111.45 | 28.69 | 30.14 | 28.56 | 29.36 |
| May | 338.0 | 339.8 | 105.56 | 113.06 | 28.73 | 30.56 | 28.69 | 29.45 |
| June | 339.5 | 341.5 | 105.29 | 114.43 | 28.65 | 31.24 | 28.83 | 29.62 |
| July | 341.0 | 343.2 | 105.16 | 114.96 | 28.64 | 31.55 | 28.59 | 29.65 |
| August | 342.2 | 344.9 | 105.94 | 114.32 | 28.73 | 31.26 | 28.75 | 29.80 |
| September | 343.4 | 346.6 | 106.65 | 111.26 | 28.75 | 30.54 | 28.73 | 29.87 |
| October | 344.9 | 348.4 | 107.13 | 111.73 | 28.94 | 30.66 | 28.82 | 30.04 |
| November | 345.8 | 349.8 | 107.48 | 110.82 | 29.06 | 30.27 | 28.98 | 29.67 |
| December | 346.8 | 351.5 | 107.26 | 111.44 | 29.01 | 30.23 | 28.80 | 30.45 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 677.7 | 677.7 | 8.91 | 8.91 | 130.6 | 130.6 | 81.1 | 81.1 |
| August | 678.8 | 678.8 | 8.80 | 8.80 | 131.0 | 131.2 | 81.2 | 81.4 |
| September | 678.3 | 682.4 | 9.53 | 9.52 | 131.2 | 131.0 | 81.2 | 81.1 |
| October | 681.5 | 687.9 | 9.26 | 9.13 | 131.7 | 132.5 | 81.4 | 81.9 |
| November | 684.9 | 695.5 | 9.10 | 9.24 | 132.0 | 133.1 | 81.4 | 82.0 |
| December | 688.0 | 698.3* | 9.15 | 10.23 | 132.1 | 133.3 | 81.3 | 82.1 |
| January 1988 | 691.2 | 701.1 | 9.23 | 9.46 | 131.8 | 133.4* | 81.0 | 82.0* |
| February | 694.3 | 703.9 | 9.32 | 9.43 | 131.5 | 133.2 | 80.7 | 81.7 |
| March | 697.9 | 706.7 | 9.40 | 9.42 | 131.3 | 133.3 | 80.4 | 81.6 |
| April | 700.3 | 709.5 | 9.28 | 9.47 | 131.3 | 133.5 | 80.2 | 81.6 |
| May | 704.1 | 713.0 | 9.37 | 9.55 | 131.5 | 133.7 | 80.2 | 81.6 |
| June | 707.1 | 717.3 | 9.50 | 9.51 | 131.7 | 134.0 | 80.2 | 81.7 |
| July | 709.6 | 720.9 | 9.43 | 9.43 | 131.9 | 134.1 | 80.2 | 81.6 |
| August | 712.3 | 725.2 | 9.62 | 9.56 | 132.2 | 134.3 | 80.3 | 81.6 |
| September | 714.9 | 728.1 | 9.38 | 9.63 | 132.5 | 133.8 | 80.4 | 81.2 |
| October | 717.6 | 731.7 | 9.43 | 9.47 | 132.0 | 134.2 | 79.5 | 81.4 |
| November | 720.5 | 734.6 | 9.52 | 9.56 | 130.3 | 134.6 | 78.3 | 81.6 |
| December | 723.1 | 737.5 | 9.60 | 9.85 | 128.6 | 134.9 | 77.1 | 81.7 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 341.0 | 341.0 | 297.4 | 296.9 | 322.6 | 322.1 | 117.6 | 117.6 |
| August | 342.7 | 342.6 | 297.3 | 297.4 | 323.0 | 323.8 | 117.8 | 117.8 |
| September | 343.4 | 343.2 | 298.2 | 298.3 | 324.0 | 323.3 | 118.1 | 118.2 |
| October | 344.9 | 344.5 | 298.5 | 297.6 | 325.0 | 324.9 | 118.5 | 118.5 |
| November | 346.3 | 345.5 | 299.4 | 297.6 | 325.7 | 325.4 | 118.8 | 118.7 |
| December | 347.7 | 345.8 | 300.3 | 296.8 | 326.5 | 325.3 | 119.1 | 118.9 |
| January 1988 | 348.6 | 346.5* | 300.7 | 297.5* | 327.3 | 325.9* | 119.6 | 119.1 |
| February | 349.5 | 347.4 | 301.1 | 298.0 | 328.4 | 326.2 | 120.1 | 119.4 |
| March | 350.5 | 348.0 | 301.5 | 297.9 | 329.5 | 325.8 | 120.6 | 119.6 |
| April | 351.8 | 348.9 | 302.3 | 298.4 | 330.1 | 327.1 | 120.9 | 119.9 |
| May | 353.2 | 349.8 | 303.2 | 298.7 | 330.6 | 327.8 | 121.2 | 120.3 |
| June | 354.7 | 351.2 | 304.2 | 299.9 | 331.2 | 328.6 | 121.4 | 120.7 |
| July | 355.7 | 352.3 | 304.9 | 300.5 | 332.1 | 330.9 | 121.7 | 121.1 |
| August | 356.8 | 353.5 | 305.6 | 301.2 | 333.0 | 332.5 | 122.1 | 121.5 |
| September | 357.7 | 354.9 | 306.3 | 302.4 | 333.9 | 330.4 | 122.5 | 121.9 |
| October | 359.1 | 356.1 | 307.1 | 303.1 | 335.8 | 334.1 | 122.9 | 122.4 |
| November | 360.5 | 357.5 | 308.2 | 304.3 | 337.7 | 335.4 | 123.3 | 122.8 |
| December | 361.9 | 358.9 | 309.3 | 305.3 | 339.6 | 336.6 | 123.7 | 123.3 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | 118.9 | 118.9 | 106.6 | 106.8 | 112.1 | 112.1 | 127.6 | 127.6 | 115.3 | 114.9 |
| August | 119.4 | 119.4 | 107.5 | 107.5 | 112.6 | 112.6 | 128.2 | 128.2 | 115.6 | 115.0 |
| September | 119.6 | 120.1 | 107.8 | 107.7 | 112.8 | 113.2 | 128.5 | 129.0 | 115.8 | 115.1 |
| October | 120.1 | 120.5 | 107.7 | 107.3 | 113.3 | 113.5 | 129.0 | 129.4 | 116.0 | 114.9 |
| November | 120.7 | 120.9 | 107.6 | 107.6 | 113.7 | 113.8 | 129.5 | 129.8 | 116.3 | 115.9 |
| December | 121.0 | 120.9 | 107.6 | 108.1 | 114.1 | 113.6 | 130.1 | 130.1 | 116.6 | 115.5 |
| January 1988 | 121.4 | 121.1* | 108.0 | 108.0* | 114.4 | 113.4* | 130.6 | 130.6* | 116.8 | 115.7* |
| February | 121.7 | 121.4 | 108.2 | 108.0 | 114.6 | 113.4 | 131.0 | 131.1 | 117.0 | 116.0 |
| March | 122.1 | 121.6 | 108.4 | 108.3 | 114.6 | 113.3 | 131.4 | 131.4 | 117.2 | 116.3 |
| April | 122.5 | 121.9 | 108.5 | 108.6 | 115.0 | 113.5 | 131.9 | 131.8 | 117.5 | 116.5 |
| May | 122.9 | 122.2 | 108.7 | 108.9 | 115.4 | 113.8 | 132.5 | 132.2 | 117.8 | 116.9 |
| June | 123.3 | 122.7 | 108.9 | 109.0 | 115.8 | 114.2 | 133.1 | 132.7 | 118.2 | 117.2 |
| July | 123.7 | 123.1 | 109.2 | 109.1 | 116.0 | 114.6 | 133.5 | 133.3 | 118.3 | 117.5 |
| August | 124.1 | 123.5 | 109.4 | 109.6 | 116.3 | 115.0 | 133.9 | 133.8 | 118.4 | 117.8 |
| September | 124.5 | 124.0 | 109.7 | 109.8 | 116.6 | 115.5 | 134.3 | 134.2 | 118.4 | 118.1 |
| October | 125.0 | 124.4 | 109.9 | 109.6 | 117.1 | 115.9 | 134.9 | 134.7 | 118.8 | 118.5 |
| November | 125.5 | 124.9 | 110.0 | 109.9 | 117.7 | 116.5 | 135.5 | 135.2 | 119.2 | 118.8 |
| December | 125.9 | 125.4 | 109.9 | 110.1 | 118.4 | 117.1 | 136.1 | 135.8 | 119.6 | 119.1 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| July 1987 | -16.47 | -16.48 | 191.4 | 191.6 | 4487 | 4488 | 3815 | 3816 | -17.6 | -17.6 |
| August | -15.67 | -15.68 | 192.6 | 192.8 | 4516 | 4524 | 3834 | 3840 | -13.9 | -19.1 |
| September | -16.10 | -14.08 | 192.0 | 193.1 | 4533 | 4559 | 3838 | 3857 | -10.5 | -18.8 |
| October | -14.76 | -17.63 | 189.7 | 193.3 | 4556 | 4583 | 3845 | 3868 | -8.0 | -21.6 |
| November | -14.33 | -13.22 | 188.8 | 191.0 | 4578 | 4595 | 3854 | 3871 | -7.6 | -23.9 |
| December | -13.91 | -13.80 | 186.9 | 190.7 | 4600 | 4616 | 3862 | 3882 | -8.9 | -21.1 |
| January 1988 | -13.73 | -13.62* | 187.5 | 190.5* | 4615 | 4621 | 3859 | 3880 | -8.5 | -16.3 |
| February | -13.87 | -13.95 | 188.2 | 190.0 | 4629 | 4631 | 3854 | 3878 | -7.8 | -10.4 |
| March | -14.02 | -13.76 | 188.4 | 190.3 | 4644 | 4644 | 3851 | 3883 | -9.3 | -9.2 |
| April | -13.73 | -14.53 | 188.0 | 190.7 | 4665 | 4659 | 3859 | 3886 | -6.5 | -8.6 |
| May | -13.46 | -14.27 | 188.6 | 190.3 | 4688 | 4680 | 3868 | 3891 | -6.1 | -8.1 |
| June | -13.15 | -14.07 | 188.2 | 189.6 | 4712 | 4706 | 3881 | 3899 | -7.2 | -8.9 |
| July | -15.32 | -14.85 | 188.4 | 189.2 | 4731 | 4719 | 3887 | 3897 | -7.4 | -10.2 |
| August | -14.42 | -14.26 | 188.7 | 190.0 | 4754 | 4748 | 3894 | 3908 | -7.5 | -14.3 |
| September | -12.61 | -13.55 | 188.5 | 190.4 | 4778 | 4759 | 3900 | 3904 | -7.9 | -14.8 |
| October | -12.95 | -13.98 | 187.8 | 190.5 | 4790 | 4789 | 3897 | 3913 | -15.6 | -11.6 |
| November | -13.43 | -13.11 | 187.6 | 190.1 | 4798 | 4810 | 3891 | 3917 | -19.7 | -14.9 |
| December | -13.26 | -12.76 | 188.2 | 189.6 | 4800 | 4841 | 3880 | 3926 | -23.6 | -17.3 |

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# FINANCIAL MARKETS

| | Monetary Base Fore. | Monetary Base C.E. | M1 Fore. | M1 C.E. | M2 Fore. | M2 C.E. | Federal Funds Fore. | Federal Funds C.E. | T-Bills (6 Mos.) Fore. | T-Bills (6 Mos.) C.E. |
|---|---|---|---|---|---|---|---|---|---|---|
| July 1987 | 264.0 | 260.1 | 747.6 | 747.6 | 2848.4 | 2847.9 | 6.58 | 6.58 | 5.76 | 5.76 |
| August | 266.3 | 262.3 | 750.9 | 751.0 | 2860.1 | 2862.7 | 6.73 | 6.73 | 6.15 | 6.15 |
| September | 267.4 | 263.2 | 751.1 | 751.2 | 2874.6 | 2875.8 | 7.22 | 7.22 | 6.64 | 6.64 |
| October | 269.3 | 265.4 | 755.9 | 760.7 | 2893.8 | 2892.5 | 7.35 | 7.29 | 6.67 | 6.69 |
| November | 270.4 | 267.3 | 760.6 | 756.6 | 2912.7 | 2891.1 | 6.96 | 6.69 | 5.83 | 6.19 |
| December | 271.6 | 267.8 | 765.3 | 753.0 | 2931.5 | 2895.6 | 6.84 | 6.77 | 5.59 | 6.36 |
| January 1988 | 273.5 | 272.3* | 771.1 | 761.4* | 2953.6 | 2916.8* | 6.73 | 6.83 | 5.88 | 6.25 |
| February | 275.4 | 273.8 | 776.6 | 767.6 | 2974.1 | 2934.3 | 6.70 | 6.56* | 5.95 | 5.94* |
| March | 277.3 | 275.3 | 782.0 | 772.2 | 2994.7 | 2949.0 | 6.76 | 6.33 | 5.94 | 5.76 |
| April | 278.7 | 276.0 | 784.9 | 774.2 | 3015.3 | 2960.8 | 6.83 | 6.38 | 6.12 | 5.83 |
| May | 279.8 | 277.7 | 787.9 | 777.0 | 3026.9 | 2973.5 | 6.88 | 6.42 | 6.16 | 5.86 |
| June | 280.9 | 279.2 | 790.8 | 780.4 | 3038.4 | 2985.4 | 6.92 | 6.55 | 6.16 | 5.99 |
| July | 282.6 | 280.5 | 796.7 | 783.4 | 3059.2 | 3000.3 | 6.88 | 6.73 | 6.07 | 6.17 |
| August | 284.4 | 281.8 | 803.9 | 786.8 | 3080.0 | 3015.3 | 6.73 | 6.76 | 5.86 | 6.21 |
| September | 286.1 | 283.3 | 811.1 | 791.3 | 3100.9 | 3030.4 | 6.45 | 6.75 | 5.65 | 6.20 |
| October | 287.4 | 285.0 | 814.0 | 796.3 | 3115.6 | 3045.6 | 6.36 | 6.78 | 5.72 | 6.16 |
| November | 288.5 | 286.7 | 817.6 | 802.2 | 3130.3 | 3060.8 | 6.27 | 6.82 | 5.70 | 6.24 |
| December | 289.7 | 290.3 | 821.1 | 812.8 | 3145.0 | 3085.3 | 6.18 | 6.81 | 5.60 | 6.26 |

| | Aaa (Seasoned) Fore. | Aaa (Seasoned) C.E. | Municipals (Bond Buyer) Fore. | Municipals (Bond Buyer) C.E. | (3 Month) Commercial Paper Fore. | (3 Month) Commercial Paper C.E. | 90 Day CD's Fore. | 90 Day CD's C.E. | Prime Rate Fore. | Prime Rate C.E. |
|---|---|---|---|---|---|---|---|---|---|---|
| July 1987 | 9.42 | 9.42 | 7.72 | 7.72 | 6.65 | 6.65 | 6.70 | 6.70 | 8.25 | 8.25 |
| August | 9.67 | 9.67 | 7.82 | 7.82 | 6.71 | 6.71 | 6.75 | 6.75 | 8.25 | 8.25 |
| September | 10.18 | 10.18 | 8.26 | 8.26 | 7.37 | 7.37 | 7.37 | 7.37 | 8.70 | 8.70 |
| October | 10.65 | 10.52 | 8.63 | 8.70 | 7.42 | 7.89 | 7.45 | 8.02 | 9.03 | 9.07 |
| November | 10.13 | 10.01 | 8.05 | 7.95 | 6.88 | 7.17 | 6.96 | 7.24 | 8.80 | 8.78 |
| December | 9.97 | 10.11 | 7.83 | 7.96 | 6.80 | 7.61 | 6.86 | 7.66 | 8.75 | 8.75 |
| January 1988 | 9.76 | 9.88 | 7.61 | 7.69 | 6.75 | 6.87 | 6.78 | 6.92 | 8.75 | 8.75 |
| February | 9.65 | 9.44* | 7.48 | 7.28* | 6.72 | 6.47* | 6.75 | 6.54* | 8.75 | 8.53 |
| March | 9.66 | 9.33 | 7.54 | 7.16 | 6.81 | 6.29 | 6.88 | 6.36 | 8.75 | 8.28 |
| April | 9.77 | 9.47 | 7.67 | 7.34 | 6.90 | 6.35 | 6.96 | 6.50 | 8.75 | 8.25 |
| May | 9.89 | 9.63 | 7.81 | 7.51 | 6.94 | 6.46 | 7.03 | 6.58 | 8.75 | 8.25 |
| June | 9.95 | 9.68 | 7.91 | 7.60 | 6.96 | 6.60 | 7.06 | 6.69 | 8.75 | 8.25 |
| July | 9.71 | 9.85 | 7.57 | 7.73 | 6.78 | 6.84 | 6.87 | 6.96 | 8.75 | 8.63 |
| August | 9.40 | 9.92 | 7.29 | 7.84 | 6.65 | 6.81 | 6.75 | 6.91 | 8.59 | 8.75 |
| September | 9.05 | 9.84 | 6.88 | 7.77 | 6.38 | 6.76 | 6.49 | 6.84 | 8.25 | 8.75 |
| October | 9.07 | 9.82 | 6.94 | 7.79 | 6.26 | 6.85 | 6.32 | 6.93 | 8.25 | 8.75 |
| November | 9.02 | 9.88 | 6.95 | 7.90 | 6.15 | 6.93 | 6.26 | 7.02 | 8.25 | 8.75 |
| December | 8.98 | 9.94 | 6.87 | 7.97 | 6.11 | 6.92 | 6.19 | 7.01 | 8.25 | 8.75 |

Fore. = November Forecast

C.E. = Current Expectations

* = This item and those beyond it are projections.

3/21/88 U1880-3

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## MONTHLY PROJECTIONS
February 1988

Dr. Donald Ratajczak, Director
For Release: March 11, 1988

## THE SERVICE ECONOMY RISES AGAIN

After the release of employment statistics for February, significant revisions in our views of economic conditions may be warranted. Although the consumer was expected to reduce growth in economic activity, evidence is growing that such consumer retrenchment is not substantial. More significantly, the service economy, after a three-month stall, appears to be roaring ahead again. Implications of this shift in activity on interest rates, the dollar, and monetary policy are relatively far-reaching.

Prior to the February employment release, it appeared that our assessment about reduced consumer spending, a correction in the construction industry, and a significant offsetting gain in industrial activity as exports swelled was intact. Moreover, rapid inventory building in the fourth quarter certainly could not be sustained. As a result, some weakening in economic activity early in 1988 followed by gradual improvement later in the year appeared to be in the cards. This would enable interest rates to decline gradually early in the year while the dollar's temporary strength on foreign exchange markets could persist on the basis of fundamentally improving trade conditions.

However, the consumer has not withdrawn as dramatically from the economy as initially expected. The stock market trauma of last October appears to have had minimal effect upon consumer behavior, except in the sale of homes. Thus, while weakness in the construction sector appears to be developing, consumer retrenchment does not seem to be at hand. Indeed, consumer debt grew at a 10.6% annual rate in January with significant debt expansion in the revolving and special credit accounts. These numbers may reflect some stress in consumer budgets. They also suggest that consumers are willing to take on more debt to maintain current consumption growth paths. Also, consumers responded very favorably to February's automobile incentives. At annual rates, total vehicle sales were at an 18 million clip that month. Last year, by contrast, total vehicles sold were only 14.9 million. Our forecast had originally assumed a dip to 14.3 million with more than a half million decline in passenger car sales. It now appears that any passenger car decline will be slight.

In addition to more debt and automobile spending than had been expected, strong employment gains in the service economy suggest that consumer services also are growing rapidly. After a three-month lull, business services rebounded by 55,000 jobs in February. Health services showed an even larger 60,000 job advance. Of course, a significant gain in government jobs probably will not continue next month while a surge in retail and construction jobs both look suspicious. Department store sales were not strong, the one area of consumer activity that appears to be following the original script. Also, while construction weather was more favorable in February than in January, a bounce back to higher employment levels than in December is suspicious. Excluding these unusual items, payrolls still advanced in the service sector by nearly 300,000.

At the same time, purchasing managers are indicating a reduction in the growth of their orders and manufacturing payrolls expanded only 20,000. Indeed, the manufacturing workweek declined. This suggests that export growth will not be vigorous. Putting the two components together suggests that consumer spending will draw in more imports causing higher trade deficits than originally projected. The trade deficit for 1988 may not sink below $160 billion. If so, monthly trade deficits once again will move up above $14 billion during the next few months. Such a performance will put significant downward pressures upon the value of the dollar.

On balance, the economy is not as weak during the first quarter as originally anticipated. The index of hours worked currently is more than 3% at annual rates above fourth quarter levels. This suggests that the inventory retrenchment may not be as significant during the first quarter as originally expected. Indeed, manufacturing inventories in January rose 0.8%, even a greater gain than the 0.6% increase in December. Some inventory slowing is anticipated as the year progresses, but weakness is not expected to be concentrated in any particular quarter. Thus, the scenario that suggested weak economic activity leading to declining interest rates early in the year no longer is valid.

The Federal Reserve currently faces a dilemma. A month ago, when the economy appeared weak, the dollar was stable, and inflation was modest with gold prices plunging sharply, the Federal Reserve had an opportunity to lower short-term interest rates. While a modest downward tick in the federal funds rate was permitted, Federal Reserve activity was not aggressive. Now, it appears that the dollar will be under significant pressure and the economy is not weak. Fortunately, inflationary pressures remain subdued. Nevertheless, Federal Reserve ease no longer is likely. Indeed, if the dollar weakens significantly after Japan ends its fiscal year at the end of March, talk about Federal Reserve tightening may develop. Such a change of events seems to suggest that interest rates probably already have reached their low point for this year.

## Quarterly Profile of GNP

| | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 4.5 | 2.0 | 2.0 | 0.8 | 2.0 | 2.1 | 2.9 | 2.6 |
| Price: | 2.7 | 3.1 | 3.5 | 4.9 | 4.9 | 4.9 | 3.0 | 3.4 |
| Nominal: | 7.3 | 5.0 | 5.6 | 5.7 | 6.9 | 7.2 | 6.0 | 6.1 |

## Monthly Statistical Highlights for February 1988

Personal income +0.8%; savings rate 5.2%; personal consumption +0.5%; housing starts +3.0%; housing permits +7.4%; construction expenditures -0.0%; business inventories +0.4%; orders for durable goods +3.3%; orders for nondefense capital goods +1.1%; industrial production UNC; consumption deflator +0.2%; CPI +0.3%; PPI UNC; leading indicators +0.4%; real GNP(AR) +2.8%; M1(AR) +4.2%; M2(AR) +8.9%.

## Monthly Statistical Highlights for March 1988

Payroll employment +116,000; index of hours worked +0.1%; household employment +280,000; civilian unemployment rate 5.7%; personal income +0.4%; savings rate 5.4%; personal consumption +0.3%; retail trade -0.0%; auto sales 10.8 million units; housing starts +2.0%; housing permits +0.4%; construction expenditures -0.5%; business inventories +0.4%; orders for durable goods -4.4%; orders for nondefense capital goods -3.6%; industrial production +0.1%; CPI +0.3%; PPI +0.3%; consumption deflator +0.2%; leading indicators -0.2%; real GNP(AR) +1.2%; M1(AR) +3.7%; M2(AR) +5.8%.

## Commentary

Employment - Of the 531,000 gain in payroll employment, a 110,000 increase in retail and a 107,000 increase in construction both look suspect. In addition, the 68,000 gain in government employment probably is a one-time surge. Excluding these factors, payroll employment still would have increased a healthy 245,000. This occurred despite a 10,000 dip in financial services as an aftermath of the stock market crash. If construction reverses again, as expected, and retail employment shows little gain next month, payroll employment probably will grow less than 200,000. Nevertheless, the February gains clearly indicate a stronger economy than had originally been anticipated. This has necessitated a significant upward revision in our estimates of payroll employment for the next year. As a result, the unemployment rates continue to drift slightly lower.

The hourly earnings index slowed significantly in February, sometimes indicating that employment may have been overstated in the payroll forms. On the assumption that hourly earnings are showing little growth, it appears that wage increases still are not being significantly stimulated by the current unemployment rates. One of the explanations for this lack of wage pressure is the strengthening of the Midwest, where some employment slack still remains, even as the Northeast begins to ease its employment conditions. If this regional pattern of employment continues, unemployment rates more than a half percentage point lower than current levels possibly can be achieved without stimulating significant inflationary pressures.

Personal Income - Wage and salary growth in January was stronger than anticipated in the forecast. Moreover, the expansion in payrolls in February suggests another surge in wage earnings. With higher payroll employment now projected for next year, this necessitates increases in our estimates of wage earnings. This, in turn, causes higher gains in personal income. In addition, stronger economic activity leads to higher interest rates. This leads to stronger gains in property income than originally anticipated.

On the other hand, tax declines were not as sharp in January as originally anticipated. This may continue to reflect the pattern of overpaying estimated taxes on estimated dates. It may also reflect an adjustment to previous underwithholding as tax payments begin to flow. According to the budget document, our annual estimate of tax receipts relative to income generation is consistent with that projected by the administration. Nevertheless, some adjustments upward in personal tax receipts were made.

Although strength in the service economy does not appear to be reflected in our estimates of service consumption, the slowing in February is the result of more normal temperatures following unusually cold weather in January. Mild weather is expected to further restrain service expenditures in March. After that, the gap between our forecasted and actual service expenditures begins to close. Declining oil and food prices should impact nondurable expenditures in February while strong auto sales clearly are reflected in higher sales for durables than originally projected.

Moreover, non-automobile durables are growing more rapidly than had been expected. In addition, orders for household durables showed surprising strength in January, suggesting higher furniture sales early in the year than we had anticipated. The net effect is to raise our estimates of non-auto durables relative to forecast. However, the trend rate of growth is not significantly altered.

Construction - Weather played a dramatic part in influencing construction activity in January. Single-family sales were off a dramatic 9% to only 535,000 with most of the weakness occurring in the Midwest and the South, where unusual winter storms created problems. This weakness also was reflected in housing starts and in construction expenditures. However, the weakness in housing permits suggests that fundamentals currently are restraining the housing market. As a result, the rebound anticipated in February is not as sharp as weather-related activity alone would suggest. On the other hand, the rebound in construction employment in February may require us to revise up our construction expenditures.

Business Activity - Manufacturing inventories continue to surge much more sharply than originally anticipated. The inventory correction may not be that substantial during the first quarter. Assuming strong sales will prevent further inventory retrenchment in the spring, the impact of an inventory slowdown may be delayed until the summer months.

Durable goods orders were restrained by a sharp drop in defense orders. Some rebound is expected in the defense sector, although defense shipments will grow more slowly than originally projected. Indeed, the budget document suggests even more subdued growth in defense shipments over the next twelve months than our current expectations.

Orders were surprisingly strong in January for machinery despite a sharp retrenchment in primary metals. The weakness in primary metals reflected a fall-off in orders in the copper industry as copper prices began plunging. Orders may bounce back in February. However, purchasing managers suggest that any increase in orders in that month will be slight. If a surprise develops, it will be in lesser gains or actual declines in durable goods orders than currently projected.

Despite especially strong gains in payroll employment, weakness in the manufacturing sector suggests that industrial activity was unchanged. However, January's gains were much stronger than contained in the forecast, suggesting stronger industrial production early in the year than had been anticipated. Because this strength is the result of a delayed retrenchment in inventories, it has little effect upon longer trends in industrial activity.

Prices - Most of the sharp price increases in January reflected once-a-year price changes for newspapers, periodicals, tobacco products, lodging fees, and hospital fees. More moderate prices should be apparent in the next few months. Moreover, oil prices are falling significantly at this time. This should take more than 5¢ to 8¢ per gallon off the price of gasoline. With gold prices also coming down, jewelry prices should begin to moderate. All these factors suggest that inflationary pressures will diminish slightly in the months ahead. However, these changes are not significant enough to substantially alter our prices relative to forecasted values. Some composition shifts will lead to a higher GNP deflator than originally projected. This is the result of stronger consumption and weaker net export activity than had originally been expected.

Miscellaneous - Despite the possibility that orders may not be as strong in February as currently projected, the leading indicators will rebound that month. Some favorable factors include initial unemployment claims, stock prices, inflation-adjusted money, and probably building permits. This should more than offset unfavorable conditions in the workweek and relatively neutral conditions for sensitive prices. Delivery delays are beginning to shorten following tight conditions in the fall.

Seasonal factors suggest that several poorly performing monthly trade balances are in store in the months ahead. Although the timing of these trade flows is especially difficult because storms on the Atlantic Ocean influence the arrival of imports, there is little doubt that a favorable downward trend in the merchandise trade balances will be reversed during the first quarter. Moreover, that downward trend was almost exclusively the result of seasonal forces. Seasonals are not favorable during the first half of the year.

## Financial Markets

Although the outlook has been revised to show more strength early in the year than originally projected, some weakening in credit market demands must have developed. This is suggested by a significant narrowing in the spread between commercial paper and federal funds rates from the fall to the winter months. Apparently, the Federal Reserve held an interest rate target despite upward pressures on interest rates in the fall. Then, enough slowing in growth developed to create some moderation in those pressures, eventually culminating in a slight dip in the federal funds rate. Now, it appears that commercial paper rates will again be pressured slightly upward, at least into the summer months. The Federal Reserve is expected to respond by maintaining an interest rate target at funds not significantly different from those that have prevailed in the last ninety days.

While the Federal Reserve is following an interest rate target, this leads to significant changes in the money stock as money demand waxes and wanes. For evaluation purposes, M2 should be more closely observed than M1. In this regard, M2 is now beginning to grow more rapidly, suggesting that some increase in money demand has developed. However, the higher interest rates are beginning to encourage an outflow of funds from checkable deposits. This is why M1 growth is slowing significantly relative to M2. At the same time, declining gasoline prices appear to be reducing pressures on currency demand. This is permitting the monetary base to grow at a relatively slower rate in order to achieve the same amount of monetary expansion.

Interest rate pressures should be gradually building through the spring. A mild inventory slowing during the summer months could provide some interest rate relief at that time. However, further increases in interest rates now seem likely in the fall as economic growth resumes and inflation begins to intensify. On balance, however, our interest rate projections are not dramatically different from what had been presented in the forecast. The only noteworthy change is a higher projected prime rate later in the year than originally expected.

Equity Markets - Stronger economic activity without any significant changes in inflation rates should lead to higher corporate profits than originally projected. While our forecast assumed that operating profits would be unchanged, upward adjustments early this year suggests that profit growth in excess of 5% now can develop. This is not a dramatic surge in profitability, but it probably is enough to justify a slight upward tilt in equity values. The issue will be whether or not rising interest rates will be enough to offset the effects of improving profitability.

Unfortunately, the stock market appears to be suffering from the same delusions that caused it to over-price equity issues early in 1987. The return of mergers and acquisitions is causing many investors to establish premiums for the industry groups in which such activity appears to be developing. In addition, many of the fund managers who have been out of the market are now feeling an urge to get their cash working again to make up for some of the fourth-quarter losses. As the first quarter approaches an end, greater cash commitments may come from these fund managers. The potential for a financial market performance similar to 1987 cannot be discounted. As confidence builds on stocks, equity values once again could rise more sharply than economic conditions justify. This would then cause a tilt away from bonds, which appear to be facing their own short-term problems, once again creating a growing gap between the price trends in the stock and bond markets. While the yawning gap that developed in the fall of 1987 should not reappear, financial markets dominated by rising equity values in the first half of 1988 followed by a significant correction later in the year once again appears to be developing.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 102983 | 102983 | 121.9 | 121.9 | 113210 | 113210 | 6.0 | 6.0 | 174.9 | 174.9 |
| November | 103285 | 103285 | 122.2 | 122.2 | 113504 | 113504 | 5.9 | 5.9 | 175.8 | 175.8 |
| December | 103596 | 103612 | 121.0 | 121.8 | 113744 | 113744 | 5.8 | 5.8 | 175.4 | 175.7 |
| January 1988 | 103705 | 103786 | 121.7 | 122.3 | 113849 | 114129 | 5.8 | 5.8 | 176.2 | 176.4 |
| February | 103778 | 104317 | 121.9 | 123.2 | 114018 | 114409 | 5.8 | 5.7 | 177.0 | 176.5 |
| March | 103854 | 104433* | 122.1 | 123.3* | 114166 | 114539* | 5.8 | 5.7* | 177.8 | 176.8* |
| April | 103992 | 104629 | 122.0 | 123.5 | 114308 | 114713 | 5.8 | 5.7 | 178.0 | 177.1 |
| May | 104103 | 104815 | 122.1 | 123.7 | 114470 | 114936 | 5.8 | 5.7 | 178.2 | 177.5 |
| June | 104212 | 105006 | 122.2 | 123.9 | 114682 | 115141 | 5.8 | 5.7 | 178.5 | 178.0 |
| July | 104349 | 105223 | 122.4 | 124.1 | 114733 | 115387 | 5.9 | 5.6 | 179.1 | 178.4 |
| August | 104512 | 105406 | 122.6 | 124.3 | 114899 | 115553 | 5.9 | 5.6 | 179.7 | 178.9 |
| September | 104687 | 105592 | 122.7 | 124.5 | 115026 | 115780 | 5.9 | 5.5 | 180.4 | 179.4 |
| October | 104755 | 105713 | 122.9 | 124.6 | 115159 | 115956 | 6.0 | 5.5 | 180.8 | 179.9 |
| November | 104834 | 105906 | 123.1 | 124.8 | 115274 | 116172 | 5.9 | 5.5 | 181.2 | 180.5 |
| December | 104916 | 106084 | 123.2 | 125.0 | 115387 | 116337 | 5.9 | 5.5 | 181.5 | 180.9 |
| January 1989 | 105069 | 106273 | 123.4 | 125.2 | 115562 | 116531 | 5.8 | 5.5 | 182.2 | 181.1 |
| February | 105240 | 106385 | 123.6 | 125.3 | 115752 | 116679 | 5.9 | 5.5 | 182.8 | 181.5 |
| March | 105413 | 106592 | 123.9 | 125.5 | 115940 | 116946 | 5.9 | 5.4 | 183.5 | 182.0 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 3.854 | 3.855 | 2.258 | 2.258 | 181.9 | 181.7 | 3.279 | 3.281 | 3.097 | 3.099 |
| November | 3.836 | 3.839 | 2.272 | 2.272 | 145.2 | 146.5 | 3.257 | 3.260 | 3.112 | 3.114 |
| December | 3.865 | 3.866 | 2.281 | 2.281 | 153.9 | 145.4 | 3.282 | 3.282 | 3.128 | 3.136 |
| January 1988 | 3.869 | 3.879 | 2.286 | 2.296 | 185.4 | 155.2 | 3.317 | 3.302 | 3.132 | 3.147 |
| February | 3.881 | 3.910* | 2.298 | 2.316* | 180.6 | 173.3* | 3.327 | 3.335* | 3.146 | 3.162* |
| March | 3.893 | 3.927 | 2.309 | 2.323 | 179.1 | 179.8 | 3.338 | 3.351 | 3.160 | 3.172 |
| April | 3.903 | 3.943 | 2.315 | 2.333 | 169.5 | 185.1 | 3.348 | 3.364 | 3.178 | 3.179 |
| May | 3.914 | 3.961 | 2.320 | 2.343 | 170.6 | 192.9 | 3.357 | 3.378 | 3.186 | 3.185 |
| June | 3.925 | 3.980 | 2.324 | 2.355 | 175.6 | 181.5 | 3.368 | 3.393 | 3.194 | 3.212 |
| July | 3.940 | 3.997 | 2.336 | 2.365 | 164.2 | 177.2 | 3.376 | 3.405 | 3.212 | 3.228 |
| August | 3.955 | 4.017 | 2.348 | 2.377 | 130.3 | 174.1 | 3.384 | 3.421 | 3.254 | 3.247 |
| September | 3.970 | 4.035 | 2.360 | 2.388 | 131.5 | 163.1 | 3.392 | 3.434 | 3.260 | 3.271 |
| October | 3.989 | 4.054 | 2.366 | 2.399 | 153.7 | 173.3 | 3.408 | 3.449 | 3.254 | 3.276 |
| November | 4.007 | 4.075 | 2.374 | 2.412 | 146.6 | 172.5 | 3.423 | 3.466 | 3.276 | 3.294 |
| December | 4.025 | 4.093 | 2.382 | 2.423 | 143.7 | 171.4 | 3.439 | 3.478 | 3.298 | 3.307 |
| January 1989 | 4.042 | 4.106 | 2.397 | 2.431 | 147.7 | 182.2 | 3.462 | 3.502 | 3.314 | 3.320 |
| February | 4.062 | 4.122 | 2.411 | 2.438 | 150.4 | 178.2 | 3.480 | 3.519 | 3.330 | 3.341 |
| March | 4.083 | 4.143 | 2.425 | 2.450 | 153.7 | 180.1 | 3.499 | 3.538 | 3.346 | 3.358 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 3000.3 | 3002.2 | 404.2 | 403.0 | 981.7 | 982.1 | 1614.4 | 1617.1 | 2489.2 | 2491.0 |
| November | 3014.5 | 3016.7 | 412.2 | 412.0 | 984.9 | 988.5 | 1617.4 | 1616.2 | 2494.3 | 2497.0 |
| December | 3030.6 | 3038.6 | 424.9 | 424.3 | 983.5 | 993.8 | 1622.2 | 1620.4 | 2506.2 | 2514.7 |
| January 1988 | 3033.9 | 3048.6 | 416.5 | 424.5 | 983.9 | 993.1 | 1633.5 | 1631.0 | 2503.2 | 2514.2* |
| February | 3048.6 | 3063.2* | 415.5 | 430.7* | 987.4 | 990.9* | 1645.7 | 1641.6* | 2509.1 | 2520.6 |
| March | 3060.5 | 3072.4 | 414.8 | 426.7 | 987.9 | 996.4 | 1657.8 | 1649.3 | 2512.7 | 2522.3 |
| April | 3072.2 | 3079.7 | 415.6 | 425.3 | 991.3 | 995.9 | 1665.3 | 1658.5 | 2514.1 | 2521.3 |
| May | 3088.9 | 3085.6 | 416.6 | 419.4 | 996.4 | 998.7 | 1675.9 | 1667.5 | 2517.4 | 2517.4 |
| June | 3100.9 | 3111.6 | 416.8 | 421.7 | 999.1 | 1003.1 | 1685.0 | 1686.8 | 2519.0 | 2528.1 |
| July | 3119.4 | 3127.5 | 418.5 | 423.2 | 1004.6 | 1008.0 | 1696.3 | 1696.3 | 2523.8 | 2530.8 |
| August | 3136.1 | 3146.2 | 421.3 | 427.4 | 1007.7 | 1011.6 | 1707.1 | 1707.2 | 2525.0 | 2534.8 |
| September | 3171.5 | 3169.8 | 442.7 | 436.3 | 1010.9 | 1016.1 | 1717.9 | 1717.4 | 2541.3 | 2544.3 |
| October | 3161.1 | 3174.1 | 418.3 | 425.0 | 1014.6 | 1021.1 | 1728.2 | 1728.0 | 2522.8 | 2436.3 |
| November | 3174.6 | 3191.4 | 419.5 | 429.1 | 1017.1 | 1025.0 | 1738.0 | 1737.3 | 2525.5 | 2539.8 |
| December | 3188.1 | 3203.9 | 420.9 | 428.9 | 1019.3 | 1027.8 | 1747.9 | 1747.2 | 2528.2 | 2539.4 |
| January 1989 | 3208.5 | 3216.6 | 423.5 | 428.4 | 1025.4 | 1031.4 | 1759.6 | 1756.8 | 2534.4 | 2539.3 |
| February | 3228.6 | 3237.0 | 425.0 | 432.6 | 1031.9 | 1036.1 | 1771.7 | 1768.3 | 2540.2 | 2545.1 |
| March | 3248.8 | 3253.6 | 426.6 | 434.3 | 1038.4 | 1039.8 | 1783.8 | 1779.5 | 2544.1 | 2547.0 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 125.63 | 125.63 | 19.92 | 19.92 | 9.3 | 9.3 | 76.97 | 76.97 | 28.74 | 28.74 |
| November | 125.77 | 125.99 | 20.20 | 20.27 | 9.9 | 9.9 | 77.02 | 77.20 | 28.55 | 28.51 |
| December | 126.68 | 127.46 | 20.34 | 20.63 | 10.9 | 10.9 | 77.08 | 77.77 | 29.25 | 29.07 |
| January 1988 | 126.06 | 128.08 | 20.11 | 20.79 | 10.4 | 10.4 | 77.12 | 77.76 | 28.83 | 29.53 |
| February | 126.47 | 128.43* | 20.24 | 20.88* | 10.0 | 11.0* | 77.36 | 77.59* | 28.87 | 29.96* |
| March | 126.44 | 128.38 | 20.37 | 20.65 | 9.6 | 10.8 | 77.33 | 78.02 | 28.74 | 29.71 |
| April | 126.95 | 128.17 | 20.20 | 20.61 | 9.7 | 10.5 | 77.69 | 77.98 | 29.06 | 29.58 |
| May | 127.51 | 127.70 | 20.16 | 20.54 | 9.9 | 10.1 | 78.10 | 78.20 | 29.25 | 28.96 |
| June | 127.95 | 128.31 | 20.07 | 20.63 | 10.2 | 10.2 | 78.50 | 78.54 | 29.38 | 29.14 |
| July | 128.05 | 128.88 | 20.16 | 20.72 | 10.0 | 10.2 | 78.86 | 78.93 | 29.03 | 29.23 |
| August | 129.39 | 129.65 | 20.33 | 20.80 | 10.5 | 10.5 | 79.08 | 79.21 | 29.98 | 29.64 |
| September | 132.67 | 130.01 | 20.28 | 20.81 | 11.2 | 10.9 | 79.29 | 79.56 | 33.10 | 30.68 |
| October | 128.86 | 130.11 | 20.20 | 20.73 | 9.6 | 9.9 | 79.53 | 79.95 | 29.13 | 29.43 |
| November | 129.47 | 130.90 | 20.24 | 20.72 | 9.8 | 10.2 | 79.76 | 80.26 | 29.47 | 29.92 |
| December | 130.37 | 131.10 | 20.28 | 20.86 | 10.1 | 10.0 | 79.98 | 80.48 | 30.11 | 29.76 |
| January 1989 | 130.98 | 131.32 | 20.33 | 21.03 | 10.1 | 9.8 | 80.43 | 80.76 | 30.22 | 29.53 |
| February | 131.49 | 132.18 | 20.26 | 21.10 | 10.1 | 10.0 | 80.88 | 81.13 | 30.35 | 29.95 |
| March | 131.78 | 132.68 | 20.38 | 21.17 | 10.0 | 10.0 | 81.32 | 81.42 | 30.08 | 30.09 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 1.537 | 1.538 | 1.105 | 1.105 | 1.463 | 1.463 | 403.5 | 403.5 | 351.2 | 351.2 |
| November | 1.639 | 1.661 | 1.110 | 1.129 | 1.469 | 1.469 | 411.3 | 411.3 | 354.8 | 354.8 |
| December | 1.374 | 1.404 | 1.023 | 1.041 | 1.340 | 1.361 | 409.7 | 406.8 | 354.6 | 352.0 |
| January 1988 | 1.390 | 1.377 | 0.996 | 1.011 | 1.285 | 1.250 | 393.8 | 395.2 | 339.8 | 341.7 |
| February | 1.478 | 1.418* | 1.035 | 1.026* | 1.362 | 1.342* | 402.1 | 395.1* | 345.4 | 340.6* |
| March | 1.526 | 1.447 | 1.076 | 1.043 | 1.443 | 1.347 | 408.8 | 393.3 | 350.0 | 338.2 |
| April | 1.525 | 1.484 | 1.085 | 1.069 | 1.441 | 1.368 | 407.4 | 394.4 | 347.9 | 338.2 |
| May | 1.538 | 1.487 | 1.092 | 1.076 | 1.452 | 1.389 | 405.3 | 397.7 | 345.5 | 340.2 |
| June | 1.524 | 1.516 | 1.072 | 1.095 | 1.443 | 1.423 | 405.7 | 399.9 | 345.3 | 340.9 |
| July | 1.532 | 1.514 | 1.086 | 1.092 | 1.447 | 1.416 | 410.6 | 404.8 | 347.7 | 344.2 |
| August | 1.533 | 1.499 | 1.092 | 1.073 | 1.443 | 1.385 | 412.6 | 406.1 | 347.6 | 344.2 |
| September | 1.535 | 1.491 | 1.098 | 1.055 | 1.446 | 1.394 | 414.5 | 408.1 | 347.4 | 344.7 |
| October | 1.561 | 1.485 | 1.115 | 1.057 | 1.463 | 1.390 | 418.2 | 408.4 | 349.1 | 343.8 |
| November | 1.576 | 1.463 | 1.123 | 1.026 | 1.489 | 1.375 | 421.0 | 409.1 | 350.3 | 343.5 |
| December | 1.591 | 1.466 | 1.131 | 1.025 | 1.502 | 1.365 | 423.7 | 409.3 | 351.3 | 342.5 |
| January 1989 | 1.569 | 1.477 | 1.109 | 1.029 | 1.501 | 1.369 | 427.0 | 410.2 | 352.9 | 341.8 |
| February | 1.573 | 1.492 | 1.115 | 1.043 | 1.496 | 1.394 | 430.0 | 412.1 | 353.9 | 342.0 |
| March | 1.556 | 1.494 | 1.094 | 1.041 | 1.453 | 1.413 | 433.0 | 415.1 | 354.9 | 343.3 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 128.7 | 128.7 | 76.8 | 76.8 | 198.6 | 198.6 |
| November | 133.8 | 133.8 | 77.7 | 77.7 | 199.8 | 199.8 |
| December | 129.3 | 132.2 | 79.6 | 78.1 | 200.8 | 196.5 |
| January 1988 | 125.9 | 129.7 | 75.8 | 74.3 | 192.1 | 191.3 |
| February | 128.2 | 129.3* | 76.9 | 75.7* | 197.0 | 190.1* |
| March | 129.4 | 128.7 | 77.3 | 76.6 | 202.1 | 188.0 |
| April | 129.2 | 129.3 | 77.8 | 77.1 | 200.4 | 188.0 |
| May | 128.6 | 129.5 | 78.1 | 77.6 | 198.6 | 190.6 |
| June | 128.0 | 129.1 | 78.5 | 78.0 | 199.2 | 192.8 |
| July | 127.9 | 129.6 | 79.0 | 78.4 | 203.7 | 196.8 |
| August | 128.3 | 130.1 | 79.3 | 78.8 | 205.0 | 197.2 |
| September | 128.6 | 130.4 | 79.6 | 79.3 | 206.3 | 198.4 |
| October | 128.7 | 130.3 | 80.0 | 79.6 | 209.5 | 198.5 |
| November | 129.0 | 130.8 | 80.3 | 80.0 | 211.7 | 198.3 |
| December | 129.4 | 131.1 | 80.5 | 80.3 | 213.8 | 197.9 |
| January 1989 | 130.0 | 131.4 | 81.4 | 80.7 | 215.6 | 198.1 |
| February | 130.4 | 131.6 | 82.0 | 81.4 | 217.6 | 199.1 |
| March | 130.9 | 131.8 | 82.6 | 81.7 | 219.5 | 201.6 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 328.6 | 328.6 | 111.09 | 111.09 | 30.41 | 30.41 | 28.99 | 28.99 |
| November | 331.8 | 331.8 | 110.95 | 110.95 | 30.09 | 30.09 | 28.62 | 28.62 |
| December | 333.2 | 333.7 | 116.41 | 115.62 | 33.56 | 33.88 | 30.47 | 30.73 |
| January 1988 | 334.7 | 336.3 | 113.62 | 113.86 | 30.29 | 34.75 | 29.06 | 30.80 |
| February | 335.5 | 338.0* | 112.18 | 117.62* | 29.93 | 35.13* | 29.65 | 30.93* |
| March | 336.2 | 339.4 | 113.35 | 112.46 | 30.13 | 33.86 | 30.21 | 31.26 |
| April | 338.5 | 340.8 | 113.02 | 113.33 | 30.06 | 33.95 | 30.06 | 31.43 |
| May | 339.8 | 342.3 | 113.47 | 113.08 | 30.15 | 33.72 | 30.21 | 31.62 |
| June | 341.5 | 344.1 | 114.46 | 114.41 | 30.53 | 34.11 | 30.36 | 31.56 |
| July | 343.0 | 345.6 | 115.53 | 114.63 | 31.02 | 34.26 | 30.55 | 31.84 |
| August | 345.1 | 347.2 | 115.06 | 115.09 | 30.97 | 34.39 | 30.77 | 32.16 |
| September | 346.2 | 349.0 | 115.91 | 113.72 | 31.17 | 33.56 | 30.98 | 32.34 |
| October | 347.6 | 350.5 | 116.62 | 113.86 | 31.43 | 33.52 | 31.14 | 32.39 |
| November | 348.9 | 351.9 | 116.85 | 113.09 | 31.62 | 33.28 | 31.34 | 32.56 |
| December | 350.8 | 353.5 | 116.21 | 113.55 | 31.26 | 33.29 | 31.55 | 32.67 |
| January 1989 | 352.1 | 355.2 | 114.49 | 112.93 | 30.57 | 32.85 | 30.86 | 32.75 |
| February | 353.9 | 356.7 | 115.86 | 112.76 | 31.35 | 32.71 | 31.24 | 32.71 |
| March | 355.6 | 358.2 | 116.63 | 112.08 | 31.50 | 32.55 | 31.61 | 32.63 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 687.7 | 689.9 | 9.13 | 9.13 | 132.5 | 132.5 | 81.9 | 81.9 |
| November | 695.5 | 696.4 | 9.24 | 9.24 | 133.1 | 133.0 | 82.0 | 82.0 |
| December | 698.3 | 701.9 | 10.23 | 10.09 | 133.3 | 133.2 | 82.2 | 82.2 |
| January 1988 | 700.3 | 705.4* | 9.26 | 8.39 | 133.1 | 133.8 | 82.2 | 82.2 |
| February | 702.4 | 708.2 | 9.83 | 9.15* | 132.5 | 133.8* | 81.6 | 82.0* |
| March | 706.0 | 711.1 | 10.40 | 9.43 | 132.5 | 134.0 | 81.4 | 82.0 |
| April | 708.5 | 714.0 | 9.95 | 9.62 | 132.2 | 134.3 | 81.0 | 82.1 |
| May | 711.3 | 717.3 | 9.86 | 9.65 | 132.4 | 134.6 | 81.0 | 82.2 |
| June | 714.9 | 721.8 | 9.78 | 9.60 | 132.6 | 134.8 | 81.0 | 82.2 |
| July | 717.1 | 724.9 | 9.85 | 9.52 | 133.2 | 135.0 | 81.3 | 82.2 |
| August | 720.3 | 728.0 | 9.98 | 9.76 | 133.6 | 135.1 | 81.4 | 82.1 |
| September | 723.0 | 730.8 | 10.11 | 10.11 | 134.0 | 135.3 | 81.5 | 82.1 |
| October | 726.4 | 734.5 | 10.05 | 10.02 | 134.0 | 135.3 | 81.3 | 81.9 |
| November | 729.1 | 737.4 | 10.02 | 9.53 | 134.2 | 135.6 | 81.3 | 82.0 |
| December | 732.4 | 741.3 | 9.96 | 9.78 | 134.4 | 135.8 | 81.3 | 82.0 |
| January 1989 | 735.6 | 744.9 | 10.03 | 9.96 | 134.8 | 136.0 | 81.4 | 82.0 |
| February | 738.9 | 748.0 | 10.10 | 10.04 | 135.4 | 136.0 | 81.7 | 81.8 |
| March | 740.9 | 751.1 | 10.17 | 10.13 | 136.0 | 136.3 | 82.0 | 81.9 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 114.9 | 114.9 | 106.1 | 106.1 | 103.9 | 103.9 | 118.5 | 118.5 |
| November | 115.3 | 115.3 | 106.1 | 106.1 | 104.2 | 104.2 | 118.7 | 118.7 |
| December | 115.4 | 115.4 | 105.8 | 105.8 | 104.1 | 104.1 | 118.9 | 118.9 |
| January 1988 | 115.6 | 115.7* | 106.1 | 106.2* | 104.3 | 104.3* | 119.2 | 119.3 |
| February | 115.8 | 116.0 | 106.1 | 106.2 | 104.3 | 104.7 | 119.5 | 119.6 |
| March | 116.1 | 116.4 | 106.2 | 106.5 | 104.5 | 104.7 | 119.8 | 119.9 |
| April | 116.5 | 116.8 | 106.4 | 106.8 | 105.0 | 104.9 | 120.2 | 120.2 |
| May | 116.9 | 117.0 | 106.6 | 106.8 | 105.4 | 105.3 | 120.5 | 120.6 |
| June | 117.4 | 117.4 | 107.0 | 107.0 | 105.8 | 105.6 | 120.8 | 121.1 |
| July | 117.9 | 117.8 | 107.5 | 107.3 | 106.3 | 106.0 | 121.2 | 121.6 |
| August | 118.3 | 118.1 | 107.8 | 107.5 | 106.7 | 106.8 | 121.7 | 122.1 |
| September | 118.9 | 118.5 | 108.4 | 107.8 | 105.2 | 105.1 | 122.2 | 122.5 |
| October | 119.3 | 118.9 | 108.8 | 108.1 | 107.5 | 107.7 | 122.5 | 123.1 |
| November | 119.6 | 119.5 | 109.0 | 108.5 | 107.8 | 108.1 | 122.7 | 123.5 |
| December | 119.9 | 119.9 | 109.2 | 108.8 | 108.0 | 108.4 | 123.0 | 124.0 |
| January 1989 | 120.4 | 120.4 | 109.5 | 109.0 | 108.6 | 108.7 | 123.5 | 124.5 |
| February | 120.9 | 120.8 | 109.8 | 109.3 | 109.4 | 109.0 | 124.0 | 125.0 |
| March | 121.3 | 121.2 | 110.1 | 109.7 | 110.3 | 109.5 | 124.6 | 125.6 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 120.5 | 120.5 | 107.3 | 107.2 | 113.5 | 113.5 | 129.4 | 129.4 | 114.9 | 114.9 |
| November | 120.9 | 120.8 | 107.6 | 107.5 | 113.8 | 113.7 | 129.8 | 129.9 | 115.9 | 115.9 |
| December | 120.9 | 120.8 | 108.1 | 107.9 | 113.6 | 113.6 | 130.1 | 130.1 | 115.5 | 115.6 |
| January 1988 | 121.2 | 121.3* | 108.0 | 108.1* | 113.4 | 113.8* | 130.6 | 130.6* | 115.9 | 115.7 |
| February | 121.5 | 121.5 | 107.8 | 108.2 | 113.5 | 113.6 | 131.2 | 131.3 | 116.4 | 116.0* |
| March | 121.8 | 121.8 | 107.9 | 108.3 | 113.6 | 113.5 | 131.7 | 131.9 | 116.8 | 116.3 |
| April | 122.2 | 122.4 | 108.3 | 108.3 | 113.9 | 113.7 | 132.3 | 132.4 | 117.1 | 116.6 |
| May | 122.7 | 122.6 | 108.5 | 108.2 | 114.3 | 114.0 | 132.9 | 133.0 | 117.3 | 116.9 |
| June | 123.1 | 123.1 | 108.7 | 108.5 | 114.6 | 114.4 | 133.5 | 133.6 | 117.5 | 117.3 |
| July | 123.6 | 123.6 | 109.0 | 108.6 | 115.1 | 114.8 | 134.0 | 134.3 | 118.1 | 117.6 |
| August | 124.2 | 124.1 | 109.3 | 108.8 | 115.7 | 115.3 | 134.5 | 135.0 | 118.7 | 118.0 |
| September | 124.8 | 124.6 | 109.5 | 109.2 | 116.3 | 115.7 | 135.0 | 135.6 | 119.3 | 118.4 |
| October | 125.3 | 125.1 | 109.8 | 109.3 | 116.8 | 116.2 | 135.6 | 136.2 | 119.8 | 118.8 |
| November | 125.7 | 125.7 | 109.7 | 109.6 | 117.3 | 116.7 | 136.2 | 136.8 | 120.2 | 119.1 |
| December | 126.1 | 126.2 | 109.7 | 109.8 | 117.7 | 117.3 | 136.8 | 137.3 | 120.6 | 119.5 |
| January 1989 | 126.6 | 126.7 | 110.1 | 109.9 | 118.2 | 117.8 | 137.4 | 137.9 | 121.0 | 120.0 |
| February | 127.1 | 127.2 | 110.3 | 110.2 | 118.6 | 118.3 | 138.0 | 138.5 | 121 5 | 120.5 |
| March | 127.7 | 127.7 | 110.5 | 110.4 | 119.0 | 118.8 | 138.6 | 139.2 | 122.0 | 120.9 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | -17.63 | -17.63 | 193.3 | 192.8 | 4583 | 4587 | 3868 | 3871 | -21.6 | -21.6 |
| November | -13.22 | -13.22 | 191.0 | 190.7 | 4595 | 4598 | 3871 | 3874 | -23.9 | -23.9 |
| December | -13.80 | -12.20 | 190.7 | 191.3 | 4616 | 4627 | 3882 | 3892 | -21.1 | -20.6 |
| January 1988 | -13.62 | -14.71 | 190.5 | 190.2 | 4620 | 4640 | 3876 | 3889 | -16.3 | -15.6 |
| February | -13.26 | -13.86* | 191.0 | 191.0* | 4620 | 4663 | 3866 | 3898 | -14.4 | -15.9 |
| March | -14.19 | -14.43 | 190.7 | 190.6 | 4639 | 4679 | 3872 | 3902 | -12.2 | -13.5 |
| April | -13.76 | -14.09 | 190.3 | 191.1 | 4655 | 4699 | 3873 | 3909 | -11.3 | -11.6 |
| May | -12.55 | -13.53 | 190.7 | 191.3 | 4677 | 4724 | 3881 | 3917 | -16.9 | -13.9 |
| June | -11.64 | -12.68 | 190.2 | 191.7 | 4700 | 4751 | 3891 | 3923 | -25.5 | -14.5 |
| July | -13.89 | -14.48 | 190.6 | 191.9 | 4726 | 4765 | 3899 | 3919 | -23.8 | -16.3 |
| August | -14.26 | -15.02 | 191.4 | 192.2 | 4752 | 4787 | 3905 | 3921 | -22.2 | -16.9 |
| September | -13.46 | -14.83 | 191.8 | 192.0 | 4778 | 4820 | 3910 | 3935 | -20.6 | -16.1 |
| October | -14.35 | -15.62 | 191.5 | 191.8 | 4800 | 4838 | 3918 | 3930 | -18.4 | -15.6 |
| November | -13.63 | -13.27 | 191.3 | 191.5 | 4820 | 4873 | 3928 | 3946 | -17.4 | -13.7 |
| December | -11.67 | -12.28 | 190.8 | 191.7 | 4841 | 4904 | 3936 | 3955 | -16.5 | -14.8 |
| January 1989 | -12.43 | -13.43 | 190.5 | 191.9 | 4868 | 4928 | 3942 | 3958 | -19.3 | -16.2 |
| February | -12.06 | -12.26 | 190.9 | 191.6 | 4896 | 4956 | 3948 | 3965 | -22.4 | -16.9 |
| March | -12.32 | -12.39 | 191.1 | 191.4 | 4924 | 4986 | 3952 | 3970 | -25.4 | -17.7 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 265.4 | 265.4 | 760.7 | 756.2 | 2892.5 | 2894.6 | 7.29 | 7.29 | 6.69 | 6.69 |
| November | 267.3 | 267.3 | 756.6 | 752.7 | 2891.1 | 2897.0 | 6.69 | 6.69 | 6.19 | 6.19 |
| December | 267.8 | 267.9 | 753.0 | 750.8 | 2895.6 | 2901.8 | 6.77 | 6.77 | 6.36 | 6.36 |
| January 1988 | 272.3 | 271.9 | 761.4 | 758.9* | 2916.8 | 2925.6 | 6.83 | 6.83 | 6.25 | 6.25 |
| February | 273.5 | 272.3* | 765.4 | 761.5 | 2930.6 | 2946.5* | 6.56 | 6.58 | 5.94 | 5.93 |
| March | 274.8 | 273.3 | 769.5 | 763.8 | 2944.4 | 2960.4 | 6.50 | 6.58* | 6.08 | 5.99* |
| April | 276.5 | 274.5 | 773.8 | 767.5 | 2959.3 | 2978.2 | 6.41 | 6.75 | 6.01 | 6.11 |
| May | 278.7 | 275.9 | 779.2 | 772.0 | 2977.8 | 2996.1 | 6.26 | 6.75 | 5.96 | 6.13 |
| June | 280.9 | 277.3 | 784.6 | 775.9 | 2995.9 | 3014.2 | 6.26 | 6.79 | 5.92 | 6.12 |
| July | 282.3 | 279.2 | 790.0 | 781.5 | 3013.4 | 3036.0 | 6.30 | 6.70 | 6.06 | 6.07 |
| August | 283.7 | 281.1 | 795.8 | 787.1 | 3028.6 | 3055.8 | 6.38 | 6.73 | 6.01 | 6.05 |
| September | 285.0 | 282.7 | 801.5 | 791.8 | 3042.9 | 3074.0 | 6.46 | 6.65 | 6.08 | 6.02 |
| October | 286.7 | 284.0 | 803.6 | 796.6 | 3060.3 | 3092.6 | 6.50 | 6.72 | 6.15 | 6.13 |
| November | 288.5 | 285.6 | 805.8 | 801.7 | 3075.9 | 3112.4 | 6.59 | 6.83 | 6.18 | 6.22 |
| December | 290.3 | 287.3 | 808.0 | 807.3 | 3091.5 | 3130.1 | 6.68 | 6.89 | 6.17 | 6.26 |
| January 1989 | 291.8 | 289.5 | 813.1 | 812.9 | 3107.3 | 3141.8 | 6.73 | 6.80 | 6.20 | 6.20 |
| February | 293.3 | 291.3 | 818.3 | 817.1 | 3126.2 | 3158.0 | 6.85 | 6.71 | 6.18 | 6.15 |
| March | 294.7 | 293.2 | 822.9 | 821.5 | 3145.0 | 3175.0 | 6.76 | 6.56 | 6.10 | 5.98 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 10.52 | 10.52 | 8.70 | 8.70 | 7.89 | 7.89 | 8.02 | 8.02 | 9.07 | 9.07 |
| November | 10.01 | 10.01 | 7.95 | 7.95 | 7.17 | 7.17 | 7.24 | 7.24 | 8.78 | 8.78 |
| December | 10.11 | 10.11 | 7.96 | 7.96 | 7.61 | 7.61 | 7.66 | 7.66 | 8.75 | 8.75 |
| January 1988 | 9.88 | 9.88 | 7.66 | 7.69 | 6.87 | 6.87 | 6.92 | 6.92 | 8.75 | 8.75 |
| February | 9.93 | 9.40 | 7.75 | 7.49 | 6.43 | 6.58 | 6.50 | 6.60 | 8.51 | 8.51 |
| March | 9.82 | 9.49* | 7.61 | 7.55 | 6.40 | 6.55* | 6.49 | 6.60* | 8.42 | 8.50 |
| April | 9.56 | 9.73 | 7.36 | 7.78 | 6.28 | 6.79 | 6.37 | 6.86 | 8.25 | 8.50 |
| May | 9.43 | 9.86 | 7.24 | 7.70 | 6.25 | 6.78 | 6.35 | 6.90 | 8.25 | 8.50 |
| June | 9.30 | 9.80 | 7.12 | 7.79 | 6.28 | 6.85 | 6.38 | 6.92 | 8.25 | 8.50 |
| July | 9.25 | 9.73 | 7.03 | 7.78 | 6.35 | 6.73 | 6.42 | 6.84 | 8.25 | 8.50 |
| August | 9.29 | 9.70 | 7.11 | 7.74 | 6.42 | 6.78 | 6.50 | 6.90 | 8.25 | 8.50 |
| September | 9.33 | 9.62 | 7.18 | 7.60 | 6.45 | 6.70 | 6.54 | 6.81 | 8.25 | 8.50 |
| October | 9.50 | 9.63 | 7.34 | 7.63 | 6.61 | 6.76 | 6.69 | 6.86 | 8.25 | 8.50 |
| November | 9.56 | 9.85 | 7.41 | 7.83 | 6.64 | 6.89 | 6.73 | 6.94 | 8.25 | 8.50 |
| December | 9.62 | 9.89 | 7.48 | 7.89 | 6.70 | 6.97 | 6.78 | 7.08 | 8.25 | 8.73 |
| January 1989 | 9.75 | 9.85 | 7.61 | 7.88 | 6.78 | 7.02 | 6.85 | 7.12 | 8.25 | 8.75 |
| February | 9.89 | 9.82 | 7.71 | 7.84 | 6.86 | 6.83 | 6.94 | 6.92 | 8.25 | 8.75 |
| March | 9.85 | 9.67 | 7.63 | 7.64 | 6.73 | 6.56 | 6.86 | 6.65 | 8.25 | 8.75 |

Fore. = February Forecast  
C.E. = Current Expectations  
* = This item and those beyond it are projections.

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*Celebrating the past, building for the future!*

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College of Business Administration
404/651-3282

# MONTHLY PROJECTIONS
March 1988

Dr. Donald Ratajczak, Director
For Release: April 7, 1988

## IS WAGE INFLATION ABOUT TO SURFACE?

According to payroll measures of employment, a million new jobs were created between December 1987 and March 1988. This job expansion was sufficient to reduce the civilian unemployment rate from 5.8% to 5.6%. In the first quarter, the index of hours worked increased at an annual rate of 3.1%, virtually negating a declining economy in the quarter. Even with a third consecutive quarter of relatively poor productivity results, our analysis shows that real economic activity expanded about 2%.

Of course, if jobs are growing by 1 million per quarter, questions must be raised about when labor friction will begin to generate inflationary pressures. Some economists actually saw wage inflation surfacing in March, especially as the hourly earnings index increased at an annual rate of 5%. However, the increase from December was only at an annual rate of 3.2%, only slightly above the 2.9% gain over the previous year. Also, the question is being raised as to when the unemployment rate will reach a level that begins to reflect the absence of experienced workers from the unemployed pool. On the East coast from North Carolina to Maine, the unemployment rate now averages below 4%, a level that almost assuredly indicates labor tightening.

However, not all labor statistics are indicating tightening. Although payrolls expanded 1.6 million since October, the household surveys show a much more moderate 900,000 gain. Such discrepancies will develop for short periods of time as a result of the different techniques used to garner information from the two data sources, but they tend to converge within the year. Thus, some people have maintained that payrolls may be overstating employment gains at the present time. Moreover, the new immigration bill has increased the number of immigrants with working cards. It is possible that employers who previously were hiding such workers are now counting them on their payrolls. Thus, the surge in payroll employment could partially reflect better measurement of payrolls rather than any significant increases in employment.

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Nevertheless, if employment opportunities continue to grow along the Eastern Seaboard, wage pressures almost certainly will develop. On the other hand, if the rebound in employment is concentrated in the Mid-West and if some employment gains can be generated in the Southwest, the unemployment rate probably could fall below 5% before serious wage pressures are excited. At this point, our estimate of the hourly earnings index shows slower growth than contained in our previous forecast despite lower unemployment rates. Thus, wage inflation is not expected to be a serious problem at this time.

The measurement problem cited above for payrolls may also be explaining why measured productivity is less satisfying than one would hope. With improved measurement of labor inputs but no change in outputs, a deterioration in productivity measures would be expected. This probably explains why there was such a large gap between prices and unit labor costs in the past two years. Normally, a discrepancy of nearly 2 percentage points between prices and unit labor costs should have generated substantial corporate profitability. However, this was not the case. Underreporting of labor inputs and the wages related to those laborers probably led to underreporting of unit labor costs in those two years. The current adjustment may lead to slightly higher reporting of unit labor costs relative to true cost pressures this year. Thus, the deterioration in productivity probably should not be viewed as alarming as normal. Nevertheless, our productivity performance over this business cycle has not been sparkling.

One other area of contention is concerning the re-industrialization of the United States. Virtually all economic forecasters believe that expansion in 1988 will be export-led. Yet, employment in manufacturing has been weak in the past two months and industrial production shows little growth. However, the dollar's decline clearly has improved the competitiveness of American manufacturers abroad. Thus, a surge in export activity certainly could be anticipated. However, exports fell more than seasonally anticipated in January. The trade figures showed improvement because imports also fell more than seasonally expected. The decline in imports is the result of excessive inventories of imported goods that developed during the fall.

On the other hand, purchasing managers are citing increased orders from foreigners in March. Thus, the lull in export activity that developed in the first quarter may be replaced by more vigorous manufacturing activity later in the year.

In the meantime, consumption and the service economy continue to be areas generating the greatest economic growth. With such strong consumer spending patterns, savings rates are projected to be lower than previously anticipated and imports may begin to rebound after inventory imbalances have been rectified. Thus, dramatic improvements in our trade balances may not continue in the months ahead.

Also of concern is the high utilization of resources in the export-oriented industries. Paper, chemicals, and plastics all are producing well above 90% of utilization. Two import-impacted industries, textiles and steel also are producing well above 90%. This raises questions as to whether American industry will have the capacity to continue industrializing. Significant growth in capital spending will be necessary to insure a continuation of strong industrial activity into 1989. However, orders are not growing briskly enough to insure that capacity will be building along with orders. If capacity is wanting, another burst in industrial material prices could develop in the next few months, leading to increasing inflationary pressures. While this inflation may not be wage-induced, it probably will push wages upward to protect earning power. A definite increase in inflationary pressures appears likely before the end of 1988.

## Quarterly Profile of GNP

| | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 4.8 | 1.9 | 2.7 | 1.3 | 2.2 | 1.4 | 2.9 | 2.8 |
| Price: | 2.7 | 2.4 | 3.4 | 4.7 | 4.7 | 5.0 | 3.0 | 3.1 |
| Nominal: | 7.6 | 4.4 | 6.2 | 6.1 | 7.0 | 6.5 | 6.0 | 6.0 |

## Monthly Statistical Highlights for March 1988

Personal income +0.1%; savings rate 5.1%; personal consumption +0.3%; retail trade -0.2%; auto sales 10.4 million units; housing starts +3.5%; housing permits +1.6%; construction expenditures +0.7%; business inventories +0.3%; orders for durable goods +1.7%; orders for nondefense capital goods +0.3%; industrial production +0.1%; CPI +0.4%; PPI +0.3%; consumption deflator +0.2%; leading indicators +0.4%; real GNP(AR) +2.2%; M1(AR) +5.0%; M2(AR) +9.8%.

## Monthly Statistical Highlights for April 1988

Payroll employment +177,000; index of hours worked +0.2%; household employment +446,000; civilian unemployment rate 5.6%; personal income +0.5%; savings rate 5.1%; personal consumption +0.5%; retail trade +0.3%; auto sales 10.7 million units; housing starts UNC: housing permits -0.3%; construction expenditures +0.4%; business inventories +0.4%; orders for durable goods +0.6%; orders for nondefense capital goods +0.9%; industrial production +0.2%; CPI +0.3%; PPI +0.2%; consumption deflator +0.3%; leading indicators -0.2%; real GNP(AR) 3.4%; M1(AR) +10.5%; M2(AR) +6.2%.

## Commentary

Employment - Most of the 262,000 increase in payroll employment occurred in construction other than general contractors, services other than business and medical, and government payrolls. For the second consecutive month, employment in manufacturing showed little change. Of course, on the household surveys, employment dipped by 306,000, but this is more than offset by a dip in the labor force which led to a decline in the unemployment rate. Participation rates fell for males, females and teenagers, but employment of teenagers fell even more sharply. That was the one segment which experienced an increase in the unemployment rate.

Despite these gains in payroll employment, the remainder of the employment report was decidely weak. The workweek declined in the private sector and also declined slightly in manufacturing. As a result, the index of hours worked fell in March. At the same time, the hourly earings index increased at an annual rate of 5% following two months of minimal gains. Most of the increase was in the construction and services areas.

Personal Income - As expected, wage and salary growth showed a strong 0.7% gain in February. A significant increase in agricultural subsidies also added to a strong 0.9% increase in personal income. No such subsidy increases are anticipated in March. In addition, a reduction in the workweek will offset the increase in employment to generate little change in wage and salary growth during March. Nevertheless, income currently is significantly above previously forecasted values and is expected to remain strong through next year.

On the other hand, the degree to which tax liabilities declined early in 1988 was overestimated in our forecast. Therefore, the upward revision in disposable income is not quite as large as earlier in the year. On the other hand, the government deficit probably will not be quite as dramatic as expected in the February outlook.

Consumption continued to grow rapidly in February as nondurables rebounded slightly from a decline in January even as strong automobile sales and abnormally cold weather led to strengths in both durables and services. Weather will not be as favorable for utility consumption in March, causing a slowing in service consumption growth at that time. In addition, prices of nondurable goods are still declining in March, which should contain expenditures in that sector. Indeed, food and oil prices are not expected to rise significantly until the second half of this year. Nonauto durables showed significant retail activity in February, but the slowing of housing activity over the winter months is expected to cause moderation in the furniture and hardware categories until the summer months. Strength in nonauto durables requires further upward revisions in our anticipations of expenditures in that category over the next twelve months. These revisions are responsible for significant upward revisions in durable spending over that period.

Construction - Recent data clearly shows that weather was a dramatic factor in restraining housing activity in January. Single-family sales rose sharply to 626,000 in February, although the sales levels still remain well below year-ago rates. Unsold single-family units are at 7.1 months of current sales level, which is considered neutral for contractors. This rebound in sales, along with current evidence that interest rates are beginning to rise, should stimulate housing sales early in the spring. Of course, after mortgage rates move above 10%, sales will once again slow. Multi-family housing activities currently are in excess of 400,000, and should continue to expand at that rate for the remainder of this year.

Weakness in housing activity over the winter months has taken its toll upon residential construction expenditures, which continued to decline in February. A slight rebound in residential activity is expected in the spring before renewed weakness in housing starts cause a plateauing of expenditures later in the year. Public construction also appears to have been weather-impacted, although sluggishness in February, where weather conditions were not quite as bad as January, suggests that previous forecasted values may have been overstated. On the other hand, nonresidential construction has held up better than anticipated. A surge in orders in February suggests that little further decline probably will develop for nonresidential activity. Strong employment estimates suggest that construction rebounded sharply in March.

One area of concern in the construction sector is the acceleration of construction prices. This appears to be the result of sharp increases in metal building materials and in some plastics, and further increases may develop in construction prices during the next few months.

Business Activity - Following a surge in orders during December, manufacturing orders slipped in January and February. In February, nondurable orders joined the decline experienced by durable goods orders. Declines in orders are anticipated after a significant surge, such as that experienced in December. Indeed, orders for nondefense capital goods continued to grow in January before correcting slightly in February. For these reasons, the current weakness in orders is not a cause for concern. Obviously, a continuation of durable goods weakness will require adjustments. At the present time, however, orders are exceeding shipments by more than $3 billion per month. Defense orders are surprisingly weak, and should rebound in the next few months. Nevertheless, the slowing in defense authorizations appears to have worked its way through to defense shipments. For that reason, much slower defense spending on durable goods is expected in the next year.

There has been little inventory adjustment in manufacturing, where inventories slowed to a 0.5% rate of accumulation from 0.9% in January. However, most of that slowing reflects slower growth in prices of industrial materials rather than any significant reductions in the rate at which goods are being stocked. Business inventories have corrected, however, as excess retail inventories that accumulated in the fall were being liquidated in the winter. However, wholesalers have shown surprising increases in their inventories despite sluggish sales activity. Inventory accumulation probably will slow slightly in the winter months, but not as much as had been anticipated after the fourth-quarter inventory positions were announced. Further slowing in inventory accumulations probably will occur in the spring and into the summer months.

Clearly, the inventory correction originally expected for the first quarter is not materializing. As a result, industrial production is much stronger than had been contained in our forecast. However, as inventory liquidations are now expected to be drawn out rather than overlooked, this discrepancy in forecasted values of industrial production narrows as we progress into 1989. This should result in continuing high utilization of resources, but no dramatic surge in capacity utilization rates.

Prices - Stronger food prices earlier in the year resulted in higher consumer price increases as measured by the CPI than previously anticipated. However, favorable shifts in composition as a result of strong growth in consumer durables is causing a slowing in the consumption deflator relative to the CPI. This also is being reflected in the GNP deflator early in the year. However, these favorable composition changes are not expected to persist throughout the year. As a result, the discrepancy in performance between the CPI and the GNP deflator should narrow as the year progresses.

Miscellaneous - Both exports and imports fell more than seasonally anticipated in January. However, imports were even more restrained than anticipated, leading to lower trade deficits than expected. Much of this is the result of excess inventories of imported goods which is causing a temporary slowing in the flow of imports into the United States. When these inventories are worked off, imports should pick up again.

The leading indicators have rebounded from their stock market-induced decline of the fall. Moreover, some forces, such as delivery delays and the manufacturing workweek have fallen sufficiently from their highs so that they can contribute further increases to the leading indicators in the months ahead. Nevertheless, little change is anticipated in stock market prices, orders, and building permits in the months ahead. This suggests that the leading indicators will show a flat pattern for the year.

## Financial Markets

Stronger economic activity than originally anticipated early in the year is leading to higher interest rate pressures than originally anticipated. Moreover, the dollar is beginning to lose its new-year luster as the economy moves into the second quarter. Higher trade deficits, which are expected in a month or so, could cause the dollar to fall to new lows against the yen and the German mark. Even in this period of relative strength, the dollar has fallen significantly against the British pound and the Canadian dollar. Such dollar weakness probably will require a less supportive Federal Reserve in the months ahead.

Of course, further dollar weakness will lead to reluctant support for American financial markets by foreign investors. At a minimum, foreign investors probably will require higher interest rates to offset the perceived currency risks that a falling dollar will generate.

Of course, reluctance by foreign investors is not sufficient to insure increasing interest rates. However, the absence of significant inventory liquidations early in the year along with increasing investment needs by the corporate sector will lead to significant upward pressures on corporate borrowings. Already, the commercial paper rate is beginning to move above the federal funds rate, suggesting that private short-term credit market demands are forcing the Federal Reserve to accept higher interest rates. Also, a rebound in housing activity during the spring and some dip in the household savings rate will reduce the degree to which the household sector will be supporting credit market conditions. While government deficits will not be as high as originally forecasted, they will be growing slightly during the year, probably to the vicinity of $165 billion. As a result, no pressures for reduced interest rates currently prevail. Under such conditions, rates will move upward.

The Federal Reserve is expected to follow a policy of grudging acceptance of higher interest rates. However, when economic growth slows in the third quarter, a slight easing of rates is possible momentarily. Nevertheless, fears of increasing inflationary pressures probably will lead to gradual increases in long-term interest rates. These increases are expected to be most dramatic for the tax-exempt market. However, the long-term government bond probably will be yielding more than 9% in the second half of 1988.

Equity Markets - Stronger economic activity than originally anticipated means that corporate profitability will be greater than originally expected. Operating profits probably will rise 8% this year while after-tax corporate profits could increase as much as 12%. Some increases in inventory profits and a reduction in the favored tax position for capital costs will increase corporate tax liabilities relative to operating profits. Nevertheless, operating profits less tax liabilities will be growing this year. However, the rise in interest rates will cancel out favorable effects from improved profitability. The result will probably be little incentive for higher equity values.

On the other hand, our analysis shows no reason to anticipate that another significant drop in equity values will be forthcoming. Indeed, the stock market performed well in responding adversely to rising interest rates in March. As a result of that response, equity values are not excessive at the present time. Clearly, such projections suggest that purchases of equities on a market-wide basis probably will not perform better than alternative investments in 1988. The Dow Jones probably will do better than the 2000 currently being recorded, but a target above 2200 is not anticipated this year.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 102983 | 102983 | 121.9 | 121.9 | 113210 | 113210 | 6.0 | 6.0 | 174.9 | 174.9 |
| November | 103285 | 103285 | 122.2 | 122.2 | 113504 | 113504 | 5.9 | 5.9 | 175.8 | 175.8 |
| December | 103596 | 103612 | 121.0 | 121.8 | 113744 | 113744 | 5.8 | 5.8 | 175.4 | 175.7 |
| January 1988 | 103705 | 103827 | 121.7 | 122.4 | 113849 | 114129 | 5.8 | 5.8 | 176.2 | 176.4 |
| February | 103778 | 104344 | 121.9 | 123.4 | 114018 | 114409 | 5.8 | 5.7 | 177.0 | 176.5 |
| March | 103854 | 104606 | 122.1 | 122.9 | 114166 | 114103 | 5.8 | 5.6 | 177.8 | 177.1 |
| April | 103992 | 104783* | 122.0 | 123.2* | 114308 | 114549* | 5.8 | 5.6* | 178.0 | 177.4* |
| May | 104103 | 104972 | 122.1 | 123.5 | 114470 | 114420 | 5.8 | 5.7 | 178.2 | 177.8 |
| June | 104212 | 105169 | 122.2 | 123.7 | 114682 | 114736 | 5.8 | 5.6 | 178.5 | 178.1 |
| July | 104349 | 105371 | 122.4 | 124.0 | 114733 | 115113 | 5.9 | 5.5 | 179.1 | 178.5 |
| August | 104512 | 105567 | 122.6 | 124.2 | 114899 | 115350 | 5.9 | 5.5 | 179.7 | 179.0 |
| September | 104687 | 105742 | 122.7 | 124.3 | 115026 | 115307 | 5.9 | 5.5 | 180.4 | 179.6 |
| October | 104755 | 105957 | 122.9 | 124.5 | 115159 | 115590 | 6.0 | 5.5 | 180.8 | 180.1 |
| November | 104834 | 106168 | 123.1 | 124.8 | 115274 | 115872 | 5.9 | 5.4 | 181.2 | 180.6 |
| December | 104916 | 106338 | 123.2 | 125.0 | 115387 | 116047 | 5.9 | 5.4 | 181.5 | 181.2 |
| January 1989 | 105069 | 106544 | 123.4 | 125.2 | 115562 | 116243 | 5.8 | 5.4 | 182.2 | 181.6 |
| February | 105240 | 106684 | 123.6 | 125.3 | 115752 | 116401 | 5.9 | 5.4 | 182.8 | 182.3 |
| March | 105413 | 106833 | 123.9 | 125.4 | 115940 | 116598 | 5.9 | 5.3 | 183.5 | 183.0 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 3.854 | 3.854 | 2.258 | 2.258 | 181.9 | 177.0 | 3.279 | 3.280 | 3.097 | 3.103 |
| November | 3.836 | 3.840 | 2.272 | 2.272 | 145.2 | 145.0 | 3.257 | 3.261 | 3.112 | 3.116 |
| December | 3.865 | 3.869 | 2.281 | 2.281 | 153.9 | 145.0 | 3.282 | 3.284 | 3.128 | 3.139 |
| January 1988 | 3.869 | 3.880 | 2.286 | 2.294 | 185.4 | 159.8 | 3.317 | 3.304 | 3.132 | 3.144 |
| February | 3.881 | 3.914 | 2.298 | 2.310 | 180.6 | 174.6 | 3.327 | 3.341 | 3.146 | 3.166 |
| March | 3.893 | 3.919* | 2.309 | 2.310* | 179.1 | 169.3* | 3.338 | 3.344* | 3.160 | 3.175* |
| April | 3.903 | 3.937 | 2.315 | 2.321 | 169.5 | 170.0 | 3.348 | 3.360 | 3.178 | 3.190 |
| May | 3.914 | 3.955 | 2.320 | 2.332 | 170.6 | 174.7 | 3.357 | 3.375 | 3.186 | 3.200 |
| June | 3.925 | 3.973 | 2.324 | 2.343 | 175.6 | 167.2 | 3.368 | 3.389 | 3.194 | 3.222 |
| July | 3.940 | 3.988 | 2.336 | 2.352 | 164.2 | 163.1 | 3.376 | 3.400 | 3.212 | 3.237 |
| August | 3.955 | 4.007 | 2.348 | 2.363 | 130.3 | 160.0 | 3.384 | 3.415 | 3.254 | 3.255 |
| September | 3.970 | 4.024 | 2.360 | 2.373 | 131.5 | 151.6 | 3.392 | 3.428 | 3.260 | 3.276 |
| October | 3.989 | 4.044 | 2.366 | 2.385 | 153.7 | 158.4 | 3.408 | 3.444 | 3.254 | 3.286 |
| November | 4.007 | 4.063 | 2.374 | 2.397 | 146.6 | 152.6 | 3.423 | 3.459 | 3.276 | 3.306 |
| December | 4.025 | 4.083 | 2.382 | 2.410 | 143.7 | 152.0 | 3.439 | 3.475 | 3.298 | 3.323 |
| January 1989 | 4.042 | 4.096 | 2.397 | 2.419 | 147.7 | 159.4 | 3.462 | 3.496 | 3.314 | 3.337 |
| February | 4.062 | 4.116 | 2.411 | 2.431 | 150.4 | 162.8 | 3.480 | 3.519 | 3.330 | 3.356 |
| March | 4.083 | 4.135 | 2.425 | 2.442 | 153.7 | 162.3 | 3.499 | 3.536 | 3.346 | 3.374 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 3000.3 | 3006.5 | 404.2 | 403.4 | 981.7 | 985.4 | 1614.4 | 1617.7 | 2489.2 | 2494.6 |
| November | 3014.5 | 3019.2 | 412.2 | 412.0 | 984.9 | 993.7 | 1617.4 | 1613.5 | 2494.3 | 2499.9 |
| December | 3030.6 | 3042.0 | 424.9 | 423.5 | 983.5 | 1000.1 | 1622.2 | 1618.4 | 2506.2 | 2519.5 |
| January 1988 | 3033.9 | 3045.7 | 416.5 | 421.1 | 983.9 | 992.4 | 1633.5 | 1632.1 | 2503.2 | 2515.8 |
| February | 3048.6 | 3067.4 | 415.5 | 428.5 | 987.4 | 994.4 | 1645.7 | 1644.5 | 2509.1 | 2529.0* |
| March | 3060.5 | 3075.5* | 414.8 | 424.5* | 987.9 | 997.4* | 1657.8 | 1653.6* | 2512.7 | 2530.6 |
| April | 3072.2 | 3090.2 | 415.6 | 425.7 | 991.3 | 1001.2 | 1665.3 | 1663.3 | 2514.1 | 2534.1 |
| May | 3088.9 | 3099.9 | 416.6 | 422.1 | 996.4 | 1003.9 | 1675.9 | 1673.9 | 2517.4 | 2533.4 |
| June | 3100.9 | 3120.8 | 416.8 | 423.5 | 999.1 | 1008.5 | 1685.0 | 1688.8 | 2519.0 | 2541.8 |
| July | 3119.4 | 3135.2 | 418.5 | 424.5 | 1004.6 | 1012.3 | 1696.3 | 1698.4 | 2523.8 | 2543.7 |
| August | 3136.1 | 3152.7 | 421.3 | 425.2 | 1007.7 | 1017.0 | 1707.1 | 1710.5 | 2525.0 | 2547.2 |
| September | 3171.5 | 3173.4 | 442.7 | 432.4 | 1010.9 | 1020.7 | 1717.9 | 1720.3 | 2541.3 | 2554.2 |
| October | 3161.1 | 3181.9 | 418.3 | 425.6 | 1014.6 | 1025.7 | 1728.2 | 1730.6 | 2522.8 | 2551.5 |
| November | 3174.6 | 3202.0 | 419.5 | 432.0 | 1017.1 | 1030.2 | 1738.0 | 1739.8 | 2525.5 | 2557.5 |
| December | 3188.1 | 3217.9 | 420.9 | 435.0 | 1019.3 | 1033.4 | 1747.9 | 1749.5 | 2528.2 | 2560.0 |
| January 1989 | 3208.5 | 3230.9 | 423.5 | 432.1 | 1025.4 | 1038.5 | 1759.6 | 1760.3 | 2534.4 | 2557.7 |
| February | 3228.6 | 3249.9 | 425.0 | 435.2 | 1031.9 | 1043.2 | 1771.7 | 1771.5 | 2540.2 | 2562.3 |
| March | 3248.8 | 3266.7 | 426.6 | 436.4 | 1038.4 | 1048.0 | 1783.8 | 1782.3 | 2544.1 | 2564.5 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 125.63 | 125.63 | 19.92 | 19.92 | 9.3 | 9.3 | 76.97 | 76.97 | 28.74 | 28.74 |
| November | 125.77 | 125.99 | 20.20 | 20.27 | 9.9 | 9.9 | 77.02 | 77.20 | 28.55 | 28.51 |
| December | 126.68 | 127.47 | 20.34 | 20.56 | 10.9 | 10.9 | 77.08 | 77.63 | 29.25 | 29.29 |
| January 1988 | 126.06 | 127.28 | 20.11 | 20.38 | 10.4 | 10.4 | 77.12 | 77.04 | 28.83 | 29.87 |
| February | 126.47 | 127.99 | 20.24 | 20.72 | 10.0 | 11.0 | 77.36 | 76.93 | 28.87 | 30.34 |
| March | 126.44 | 127.74* | 20.37 | 20.67* | 9.6 | 10.4* | 77.33 | 77.34* | 28.74 | 29.73* |
| April | 126.95 | 128.17 | 20.20 | 20.70 | 9.7 | 10.7 | 77.69 | 77.63 | 29.06 | 29.84 |
| May | 127.51 | 127.96 | 20.16 | 20.86 | 9.9 | 10.3 | 78.10 | 77.84 | 29.25 | 29.26 |
| June | 127.95 | 128.48 | 20.07 | 20.93 | 10.2 | 10.4 | 78.50 | 78.20 | 29.38 | 29.35 |
| July | 128.05 | 128.89 | 20.16 | 20.97 | 10.0 | 10.4 | 78.86 | 78.49 | 29.03 | 29.43 |
| August | 129.39 | 129.34 | 20.33 | 20.88 | 10.5 | 10.5 | 79.08 | 78.86 | 29.98 | 29.60 |
| September | 132.67 | 130.48 | 20.28 | 20.96 | 11.2 | 10.8 | 79.29 | 79.14 | 33.10 | 30.38 |
| October | 128.86 | 130.06 | 20.20 | 21.05 | 9.6 | 9.8 | 79.53 | 79.53 | 29.13 | 29.48 |
| November | 129.47 | 131.17 | 20.24 | 21.36 | 9.8 | 10.2 | 79.76 | 79.88 | 29.47 | 29.93 |
| December | 130.37 | 131.78 | 20.28 | 21.53 | 10.1 | 10.3 | 79.98 | 80.13 | 30.11 | 30.12 |
| January 1989 | 130.98 | 131.83 | 20.33 | 21.31 | 10.1 | 10.2 | 80.43 | 80.52 | 30.22 | 30.00 |
| February | 131.49 | 132.56 | 20.26 | 21.54 | 10.1 | 10.2 | 80.88 | 80.89 | 30.35 | 30.13 |
| March | 131.78 | 133.07 | 20.38 | 21.50 | 10.0 | 10.3 | 81.32 | 81.26 | 30.08 | 30.31 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

|  | Housing Starts |  | Single Family Starts |  | Housing Permits |  | Construction Expenditures (Current) |  | Construction Expenditures (Real) |  |
|---|---|---|---|---|---|---|---|---|---|---|
|  | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 1.537 | 1.538 | 1.105 | 1.105 | 1.463 | 1.463 | 403.5 | 403.5 | 351.2 | 351.2 |
| November | 1.639 | 1.661 | 1.110 | 1.129 | 1.469 | 1.469 | 411.3 | 405.1 | 354.8 | 349.4 |
| December | 1.374 | 1.399 | 1.023 | 1.035 | 1.340 | 1.361 | 409.7 | 406.8 | 354.6 | 352.0 |
| January 1988 | 1.390 | 1.372 | 0.996 | 1.002 | 1.285 | 1.257 | 393.8 | 392.5 | 339.8 | 343.5 |
| February | 1.478 | 1.494 | 1.035 | 1.095 | 1.362 | 1.402 | 402.1 | 391.5 | 345.4 | 341.1 |
| March | 1.526 | 1.547* | 1.076 | 1.132* | 1.443 | 1.425* | 408.8 | 394.4* | 350.0 | 342.7* |
| April | 1.525 | 1.547 | 1.085 | 1.125 | 1.441 | 1.421 | 407.4 | 396.0 | 347.9 | 343.2 |
| May | 1.538 | 1.521 | 1.092 | 1.103 | 1.452 | 1.403 | 405.3 | 401.4 | 345.5 | 347.2 |
| June | 1.524 | 1.502 | 1.072 | 1.076 | 1.443 | 1.376 | 405.7 | 403.2 | 345.3 | 347.9 |
| July | 1.532 | 1.504 | 1.086 | 1.083 | 1.447 | 1.385 | 410.6 | 401.4 | 347.7 | 345.1 |
| August | 1.533 | 1.499 | 1.092 | 1.071 | 1.443 | 1.367 | 412.6 | 400.7 | 347.6 | 343.7 |
| September | 1.535 | 1.489 | 1.098 | 1.056 | 1.446 | 1.354 | 414.5 | 401.2 | 347.4 | 342.9 |
| October | 1.561 | 1.479 | 1.115 | 1.063 | 1.463 | 1.346 | 418.2 | 401.4 | 349.1 | 342.2 |
| November | 1.576 | 1.482 | 1.123 | 1.055 | 1.489 | 1.350 | 421.0 | 401.0 | 350.3 | 341.0 |
| December | 1.591 | 1.500 | 1.131 | 1.067 | 1.502 | 1.384 | 423.7 | 402.3 | 351.3 | 340.9 |
| January 1989 | 1.569 | 1.485 | 1.109 | 1.052 | 1.501 | 1.375 | 427.0 | 405.0 | 352.9 | 342.1 |
| February | 1.573 | 1.527 | 1.115 | 1.093 | 1.496 | 1.389 | 430.0 | 406.9 | 353.9 | 342.5 |
| March | 1.556 | 1.469 | 1.094 | 1.047 | 1.453 | 1.356 | 433.0 | 410.2 | 354.9 | 344.1 |

|  | Non-Residential |  | Public Construction |  | Residential Construction |  |
|---|---|---|---|---|---|---|
|  | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 128.7 | 127.9 | 76.8 | 76.8 | 198.6 | 198.8 |
| November | 133.8 | 133.8 | 77.7 | 77.4 | 199.8 | 193.9 |
| December | 129.3 | 132.2 | 79.6 | 78.1 | 200.8 | 196.5 |
| January 1988 | 125.9 | 128.0 | 75.8 | 74.4 | 192.1 | 190.1 |
| February | 128.2 | 128.7 | 76.9 | 74.7 | 197.0 | 188.1 |
| March | 129.4 | 129.5* | 77.3 | 75.3* | 202.1 | 189.6* |
| April | 129.2 | 129.3 | 77.8 | 75.7 | 200.4 | 191.0 |
| May | 128.6 | 129.0 | 78.1 | 76.2 | 198.6 | 196.2 |
| June | 128.0 | 129.3 | 78.5 | 76.5 | 199.2 | 197.4 |
| July | 127.9 | 129.0 | 79.0 | 77.3 | 203.7 | 195.1 |
| August | 128.3 | 129.5 | 79.3 | 77.0 | 205.0 | 194.2 |
| September | 128.6 | 129.8 | 79.6 | 77.4 | 206.3 | 194.0 |
| October | 128.7 | 130.1 | 80.0 | 77.9 | 209.5 | 193.4 |
| November | 129.0 | 129.7 | 80.3 | 78.5 | 211.7 | 192.8 |
| December | 129.4 | 130.2 | 80.5 | 78.9 | 213.8 | 193.2 |
| January 1989 | 130.0 | 130.5 | 81.4 | 79.6 | 215.6 | 194.9 |
| February | 130.4 | 130.8 | 82.0 | 80.3 | 217.6 | 195.8 |
| March | 130.9 | 131.1 | 82.6 | 80.1 | 219.5 | 199.0 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 328.6 | 328.6 | 111.09 | 111.09 | 30.41 | 30.42 | 28.99 | 28.99 |
| November | 331.8 | 331.8 | 110.95 | 110.95 | 30.09 | 30.09 | 28.62 | 28.62 |
| December | 333.2 | 333.2 | 116.41 | 116.41 | 33.56 | 33.56 | 30.47 | 30.73 |
| January 1988 | 334.7 | 336.8 | 113.62 | 114.20 | 30.29 | 34.79 | 29.06 | 30.65 |
| February | 335.5 | 338.4 | 112.18 | 112.92 | 29.93 | 33.45 | 29.65 | 30.52 |
| March | 336.2 | 339.7* | 113.35 | 114.84* | 30.13 | 33.55* | 30.21 | 30.27* |
| April | 338.5 | 341.2 | 113.02 | 115.56 | 30.06 | 33.86 | 30.06 | 30.86 |
| May | 339.8 | 342.8 | 113.47 | 113.27 | 30.15 | 33.14 | 30.21 | 30.43 |
| June | 341.5 | 344.5 | 114.46 | 113.58 | 30.53 | 33.48 | 30.36 | 30.93 |
| July | 343.0 | 346.0 | 115.53 | 115.84 | 31.02 | 34.25 | 30.55 | 31.46 |
| August | 345.1 | 347.7 | 115.06 | 114.67 | 30.97 | 33.78 | 30.77 | 31.73 |
| September | 346.2 | 349.1 | 115.91 | 115.96 | 31.17 | 34.29 | 30.98 | 32.06 |
| October | 347.6 | 350.5 | 116.62 | 112.23 | 31.43 | 32.16 | 31.14 | 31.57 |
| November | 348.9 | 351.8 | 116.85 | 113.65 | 31.62 | 33.45 | 31.34 | 32.29 |
| December | 350.8 | 353.0 | 116.21 | 113.94 | 31.26 | 33.78 | 31.55 | 32.46 |
| January 1989 | 352.1 | 354.5 | 114.49 | 111.46 | 30.57 | 31.84 | 30.86 | 32.05 |
| February | 353.9 | 355.9 | 115.86 | 111.29 | 31.35 | 31.76 | 31.24 | 32.14 |
| March | 355.6 | 357.3 | 116.63 | 113.28 | 31.50 | 32.29 | 31.61 | 32.09 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 687.7 | 689.9 | 9.13 | 9.13 | 132.5 | 132.5 | 81.9 | 81.9 |
| November | 695.5 | 696.4 | 9.24 | 9.24 | 133.1 | 133.2 | 82.0 | 82.1 |
| December | 698.3 | 702.9 | 10.23 | 10.09 | 133.3 | 133.8 | 82.2 | 82.4 |
| January 1988 | 700.3 | 705.9 | 9.26 | 8.43 | 133.1 | 134.2 | 82.2 | 82.4 |
| February | 702.4 | 708.0* | 9.83 | 8.39 | 132.5 | 134.4 | 81.6 | 82.4 |
| March | 706.0 | 710.1 | 10.40 | 8.96* | 132.5 | 134.5* | 81.4 | 82.3* |
| April | 708.5 | 712.9 | 9.95 | 9.14 | 132.2 | 134.8 | 81.0 | 82.3 |
| May | 711.3 | 716.5 | 9.86 | 9.27 | 132.4 | 135.1 | 81.0 | 82.3 |
| June | 714.9 | 720.1 | 9.78 | 9.53 | 132.6 | 135.3 | 81.0 | 82.3 |
| July | 717.1 | 723.7 | 9.85 | 9.42 | 133.2 | 135.7 | 81.3 | 82.5 |
| August | 720.3 | 727.3 | 9.98 | 9.68 | 133.6 | 135.9 | 81.4 | 82.5 |
| September | 723.0 | 729.5 | 10.11 | 9.83 | 134.0 | 135.9 | 81.5 | 82.3 |
| October | 726.4 | 733.1 | 10.05 | 9.74 | 134.0 | 136.1 | 81.3 | 82.3 |
| November | 729.1 | 737.0 | 10.02 | 9.26 | 134.2 | 136.5 | 81.3 | 82.4 |
| December | 732.4 | 740.0 | 9.96 | 9.75 | 134.4 | 136.8 | 81.3 | 82.4 |
| January 1989 | 735.6 | 743.5 | 10.03 | 9.36 | 134.8 | 137.0 | 81.4 | 82.4 |
| February | 738.9 | 746.7 | 10.10 | 9.58 | 135.4 | 137.0 | 81.7 | 82.2 |
| March | 740.9 | 749.8 | 10.17 | 9.84 | 136.0 | 136.9 | 82.0 | 81.9 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 114.9 | 115.0 | 106.1 | 106.2 | 103.9 | 103.9 | 118.5 | 118.5 |
| November | 115.3 | 115.3 | 106.1 | 106.1 | 104.2 | 104.2 | 118.7 | 118.7 |
| December | 115.4 | 115.5 | 105.8 | 105.7 | 104.1 | 104.1 | 118.9 | 118.9 |
| January 1988 | 115.6 | 115.9 | 106.1 | 106.1 | 104.3 | 104.3 | 119.2 | 119.1 |
| February | 115.8 | 116.1 | 106.1 | 105.9 | 104.3 | 104.4 | 119.5 | 119.4 |
| March | 116.1 | 116.6* | 106.2 | 106.2* | 104.5 | 104.2* | 119.8 | 119.6 |
| April | 116.5 | 116.9 | 106.4 | 106.4 | 105.0 | 104.5 | 120.2 | 120.0 |
| May | 116.9 | 117.3 | 106.6 | 106.8 | 105.4 | 104.8 | 120.5 | 120.4 |
| June | 117.4 | 117.6 | 107.0 | 106.9 | 105.8 | 105.3 | 120.8 | 120.8 |
| July | 117.9 | 118.0 | 107.5 | 107.2 | 106.3 | 105.7 | 121.2 | 121.3 |
| August | 118.3 | 118.4 | 107.8 | 107.6 | 106.7 | 106.0 | 121.7 | 121.8 |
| September | 118.9 | 118.7 | 108.4 | 107.7 | 105.2 | 104.5 | 122.2 | 122.2 |
| October | 119.3 | 119.1 | 108.8 | 108.1 | 107.5 | 106.6 | 122.5 | 122.7 |
| November | 119.6 | 119.5 | 109.0 | 108.4 | 107.8 | 107.0 | 122.7 | 123.2 |
| December | 119.9 | 119.9 | 109.2 | 108.7 | 108.0 | 107.3 | 123.0 | 123.6 |
| January 1989 | 120.4 | 120.4 | 109.5 | 109.1 | 108.6 | 107.8 | 123.5 | 124.2 |
| February | 120.9 | 120.8 | 109.8 | 109.4 | 109.4 | 108.2 | 124.0 | 124.7 |
| March | 121.3 | 121.3 | 110.1 | 109.7 | 110.3 | 108.7 | 124.6 | 125.2 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 120.5 | 120.5 | 107.3 | 107.2 | 113.5 | 113.5 | 129.4 | 129.4 | 114.9 | 114.2 |
| November | 120.9 | 120.8 | 107.6 | 107.4 | 113.8 | 113.7 | 129.8 | 129.9 | 115.9 | 114.8 |
| December | 120.9 | 120.7 | 108.1 | 107.6 | 113.6 | 113.5 | 130.1 | 130.1 | 115.5 | 114.2 |
| January 1988 | 121.2 | 121.1 | 108.0 | 107.4 | 113.4 | 113.4 | 130.6 | 130.7 | 115.9 | 114.3 |
| February | 121.5 | 121.3* | 107.8 | 107.7* | 113.5 | 113.3* | 131.2 | 131.2* | 116.4 | 114.8 |
| March | 121.8 | 121.5 | 107.9 | 107.5 | 113.6 | 113.2 | 131.7 | 131.8 | 116.8 | 115.1 |
| April | 122.2 | 121.9 | 108.3 | 107.8 | 113.9 | 113.4 | 132.3 | 132.4 | 117.1 | 115.4 |
| May | 122.7 | 122.4 | 108.5 | 107.7 | 114.3 | 113.7 | 132.9 | 133.0 | 117.3 | 115.6 |
| June | 123.1 | 122.8 | 108.7 | 108.0 | 114.6 | 114.0 | 133.5 | 133.5 | 117.5 | 115.9 |
| July | 123.6 | 123.3 | 109.0 | 108.2 | 115.1 | 114.4 | 134.0 | 134.1 | 118.1 | 116.3 |
| August | 124.2 | 123.8 | 109.3 | 108.4 | 115.7 | 114.9 | 134.5 | 134.7 | 118.7 | 116.6 |
| September | 124.8 | 124.2 | 109.5 | 108.8 | 116.3 | 115.3 | 135.0 | 135.3 | 119.3 | 117.0 |
| October | 125.3 | 124.7 | 109.8 | 108.7 | 116.8 | 115.7 | 135.6 | 135.9 | 119.8 | 117.3 |
| November | 125.7 | 125.2 | 109.7 | 109.0 | 117.3 | 116.2 | 136.2 | 136.5 | 120.2 | 117.6 |
| December | 126.1 | 125.7 | 109.7 | 109.2 | 117.7 | 116.7 | 136.8 | 137.1 | 120.6 | 118.0 |
| January 1989 | 126.6 | 126.3 | 110.1 | 109.4 | 118.2 | 117.3 | 137.4 | 137.8 | 121.0 | 118.4 |
| February | 127.1 | 126.8 | 110.3 | 109.7 | 118.6 | 117.8 | 138.0 | 138.4 | 121 5 | 118.8 |
| March | 127.7 | 127.4 | 110.5 | 109.9 | 119.0 | 118.4 | 138.6 | 139.0 | 122.0 | 119.2 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | -17.63 | -17.63 | 193.3 | 192.8 | 4583 | 4590 | 3868 | 3873 | -21.6 | -21.6 |
| November | -13.22 | -13.22 | 191.0 | 190.7 | 4595 | 4601 | 3871 | 3876 | -23.9 | -23.9 |
| December | -13.80 | -12.20 | 190.7 | 191.0 | 4616 | 4631 | 3882 | 3895 | -21.1 | -23.2 |
| January 1988 | -13.62 | -12.44 | 190.5 | 188.9 | 4620 | 4638 | 3876 | 3894 | -16.3 | -17.8 |
| February | -13.26 | -13.12* | 191.0 | 190.6 | 4620 | 4655 | 3866 | 3899 | -14.4 | -16.5 |
| March | -14.19 | -13.05 | 190.7 | 191.4* | 4639 | 4671 | 3872 | 3906 | -12.2 | -12.7 |
| April | -13.76 | -13.63 | 190.3 | 191.1 | 4655 | 4700 | 3873 | 3917 | -11.3 | -12.1 |
| May | -12.55 | -13.07 | 190.7 | 190.6 | 4677 | 4720 | 3881 | 3920 | -16.9 | -12.9 |
| June | -11.64 | -12.23 | 190.2 | 191.0 | 4700 | 4752 | 3891 | 3934 | -25.5 | -15.7 |
| July | -13.89 | -13.94 | 190.6 | 191.3 | 4726 | 4772 | 3899 | 3934 | -23.8 | -18.3 |
| August | -14.26 | -13.56 | 191.4 | 191.8 | 4752 | 4792 | 3905 | 3934 | -22.2 | -18.1 |
| September | -13.46 | -12.82 | 191.8 | 192.2 | 4778 | 4818 | 3910 | 3943 | -20.6 | -16.5 |
| October | -14.35 | -14.45 | 191.5 | 192.0 | 4800 | 4844 | 3918 | 3948 | -18.4 | -16.1 |
| November | -13.63 | -13.05 | 191.3 | 191.7 | 4820 | 4872 | 3928 | 3955 | -17.4 | -16.6 |
| December | -11.67 | -12.16 | 190.8 | 190.9 | 4841 | 4899 | 3936 | 3964 | -16.5 | -17.4 |
| January 1989 | -12.43 | -11.89 | 190.5 | 189.8 | 4868 | 4927 | 3942 | 3967 | -19.3 | -18.5 |
| February | -12.06 | -11.65 | 190.9 | 189.5 | 4896 | 4952 | 3948 | 3971 | -22.4 | -19.9 |
| March | -12.32 | -11.08 | 191.1 | 189.6 | 4924 | 4983 | 3952 | 3980 | -25.4 | -21.3 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 265.4 | 265.2 | 760.7 | 756.2 | 2892.5 | 2895.2 | 7.29 | 7.29 | 6.69 | 6.69 |
| November | 267.3 | 267.2 | 756.6 | 752.7 | 2891.1 | 2897.7 | 6.69 | 6.69 | 6.19 | 6.19 |
| December | 267.8 | 267.2 | 753.0 | 750.9 | 2895.6 | 2902.1 | 6.77 | 6.77 | 6.36 | 6.36 |
| January 1988 | 272.3 | 271.3 | 761.4 | 758.9 | 2916.8 | 2925.5 | 6.83 | 6.83 | 6.25 | 6.25 |
| February | 273.5 | 272.0 | 765.4 | 759.6 | 2930.6 | 2946.8 | 6.56 | 6.58 | 5.94 | 5.96 |
| March | 274.8 | 273.1* | 769.5 | 762.7* | 2944.4 | 2969.9* | 6.50 | 6.58 | 6.08 | 5.90 |
| April | 276.5 | 274.8 | 773.8 | 769.1 | 2959.3 | 2984.8 | 6.41 | 6.73 | 6.01 | 6.02* |
| May | 278.7 | 275.9 | 779.2 | 771.1 | 2977.8 | 3002.7 | 6.26 | 6.80 | 5.96 | 6.08 |
| June | 280.9 | 277.4 | 784.6 | 774.8 | 2995.9 | 3017.1 | 6.26 | 6.76 | 5.92 | 6.05 |
| July | 282.3 | 279.0 | 790.0 | 780.9 | 3013.4 | 3038.2 | 6.30 | 6.68 | 6.06 | 5.96 |
| August | 283.7 | 280.7 | 795.8 | 787.4 | 3028.6 | 3060.5 | 6.38 | 6.53 | 6.01 | 5.83 |
| September | 285.0 | 282.3 | 801.5 | 792.1 | 3042.9 | 3078.8 | 6.46 | 6.58 | 6.08 | 5.89 |
| October | 286.7 | 284.0 | 803.6 | 797.5 | 3060.3 | 3096.8 | 6.50 | 6.69 | 6.15 | 5.94 |
| November | 288.5 | 285.5 | 805.8 | 800.8 | 3075.9 | 3111.6 | 6.59 | 6.82 | 6.18 | 6.07 |
| December | 290.3 | 287.1 | 808.0 | 804.5 | 3091.5 | 3126.9 | 6.68 | 7.03 | 6.17 | 6.20 |
| January 1989 | 291.8 | 288.6 | 813.1 | 808.1 | 3107.3 | 3140.9 | 6.73 | 7.15 | 6.20 | 6.29 |
| February | 293.3 | 290.4 | 818.3 | 813.1 | 3126.2 | 3160.3 | 6.85 | 7.27 | 6.18 | 6.35 |
| March | 294.7 | 292.3 | 822.9 | 818.4 | 3145.0 | 3179.3 | 6.76 | 7.24 | 6.10 | 6.31 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 10.52 | 10.52 | 8.70 | 8.70 | 7.89 | 7.89 | 8.02 | 8.02 | 9.07 | 9.07 |
| November | 10.01 | 10.01 | 7.95 | 7.95 | 7.17 | 7.17 | 7.24 | 7.24 | 8.78 | 8.78 |
| December | 10.11 | 10.11 | 7.96 | 7.96 | 7.61 | 7.61 | 7.66 | 7.66 | 8.75 | 8.75 |
| January 1988 | 9.88 | 9.88 | 7.66 | 7.69 | 6.87 | 6.87 | 6.92 | 6.92 | 8.75 | 8.75 |
| February | 9.93 | 9.40 | 7.75 | 7.49 | 6.43 | 6.58 | 6.50 | 6.60 | 8.51 | 8.51 |
| March | 9.82 | 9.42* | 7.61 | 7.75* | 6.40 | 6.61* | 6.49 | 6.61* | 8.42 | 8.50* |
| April | 9.56 | 9.66 | 7.36 | 8.02 | 6.28 | 6.78 | 6.37 | 6.75 | 8.25 | 8.50 |
| May | 9.43 | 9.70 | 7.24 | 8.11 | 6.25 | 6.85 | 6.35 | 6.84 | 8.25 | 8.50 |
| June | 9.30 | 9.65 | 7.12 | 8.06 | 6.28 | 6.73 | 6.38 | 6.79 | 8.25 | 8.50 |
| July | 9.25 | 9.63 | 7.03 | 7.99 | 6.35 | 6.65 | 6.42 | 6.74 | 8.25 | 8.50 |
| August | 9.29 | 9.70 | 7.11 | 8.05 | 6.42 | 6.50 | 6.50 | 6.63 | 8.25 | 8.50 |
| September | 9.33 | 9.78 | 7.18 | 8.13 | 6.45 | 6.53 | 6.54 | 6.62 | 8.25 | 8.50 |
| October | 9.50 | 9.84 | 7.34 | 8.18 | 6.61 | 6.68 | 6.69 | 6.70 | 8.25 | 8.50 |
| November | 9.56 | 9.89 | 7.41 | 8.26 | 6.64 | 6.76 | 6.73 | 6.85 | 8.25 | 8.50 |
| December | 9.62 | 10.03 | 7.48 | 8.43 | 6.70 | 6.94 | 6.78 | 7.06 | 8.25 | 8.68 |
| January 1989 | 9.75 | 10.08 | 7.61 | 8.48 | 6.78 | 7.11 | 6.85 | 7.10 | 8.25 | 8.93 |
| February | 9.89 | 10.01 | 7.71 | 8.41 | 6.86 | 7.23 | 6.94 | 7.29 | 8.25 | 9.00 |
| March | 9.85 | 9.94 | 7.63 | 8.31 | 6.73 | 7.20 | 6.86 | 7.30 | 8.25 | 9.00 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

*Celebrating the past, building for the future!*

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Economic Forecasting Center
College of Business Administration
404/651-3282

MONTHLY PROJECTIONS
April 1988

Dr. Donald Ratajczak, Director
For Release: May 26, 1988

## ECONOMY REMAINS DECEPTIVELY STRONG

Little solace should be take from the 174,000 increase in payrolls during April. Clearly, some of the employment gains in March, especially in other construction, other services, and retailing were caused either by shifting seasonals because of the Easter holiday or by survey problems. In addition, government payrolls spurted, which is not expected every month. Thus, a slowing in payroll growth during April should not be surprising. On the other hand, the spurt in hours worked to a monthly increase of 1% clearly was unusual. Again, problems with the Easter holiday probably depressed the workweek in March and increased it in April. Nevertheless, even if the two months are averaged, economic activity appears to be strong.

Moreover, this strength in hours worked has been confirmed by other measures of economic activity during the month. Industrial production rebounded by 0.7% although about half of that rebound was the result of increased automobile activity. Orders for durable goods also continued to rebound, although nondefense capital goods orders increased less than had been anticipated. Large orders for commercial aircraft should add further to durable goods orders in the next few months. A 23% increase in exports during March probably reflects as much an increase in processing of invoices as an increase in goods actually moving across the waters. Nevertheless, foreign purchasers have discovered that the United States now is the low-cost supplier of resources to the industrialized world. Unless the dollar rallies sharply, a condition that is not anticipated at this time, continued export growth should be anticipated.

Of course, a rebound in industrial activity will lead to some capacity pressures in several leading industries, including paper, textiles, chemicals, and metals. Increased investment may develop. Because nearly 35¢ of each investment dollar is spent on foreign goods, imports are expected to grow robustly. Indeed, the trade figures probably will show a sawtooth pattern through much of this year with surges in exports knocking down the deficits one month followed by import increases causing deterioration the next. On the whole, however, the trend probably is downward, if not sufficiently to stem concerns of foreign investors at the present time.

As expected, such pressures upon industrial activity are beginning to increase profit margins at the industrial level. Prices for industrial materials have been increasing at double-digit rates through the first five months of this year. Although investment has picked up, the results of capacity expansion probably will not be adding to supplies until late next year or in 1990. Therefore, inflation in industrial material prices should remain near double-digit levels through the remainder of this year and only slow as economic demand slows its rate of growth early in 1989.

Generally, the economy is reflecting an expansion-ending pattern, with capacity utilization rising, unemployment falling to decade-lows, inflation intensifying, and interest rates rising. Investment activity also has been stimulated. However, two factors probably will cause a divergence from normal cycle-ending behavior.

First, long-term interest rates are rising faster than inflation. Typically, interest rates lag behind inflation, causing the real rate of interest to decline until a recession commences. However, concerns about inflation have worried investors so significantly that long-term interest rates are rising faster than underlying inflation. Of course, the Federal Reserve has been reluctant to increase targeted short-term rates. Thus, increased industrial material inflation has begun to spawn speculative holdings of material inventories. (This speculative inventory-holding near the end of a cycle, however, is quite normal.) Because of the rise in real interest rates, the interest-sensitive part of the economy may slow sooner than normally develops at this stage of the cycle.

Second, America's improved competitiveness will insure that much of the weakness in aggregate spending will be reflected in imports when weakness comes. In 1982, by contrast, all the reduction in domestic activity was borne by domestic producers. Conceivably, export activity will remain robust enough that an actual decline in production may be avoided when rising inflation and interest rates finally restrain spending plans.

Quarterly Profile of GNP

|  | 1987-4 | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1987 Annual | 1988 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 4.8 | 2.3 | 3.3 | 3.0 | 2.4 | 1.2 | 2.9 | 3.5 |
| Price: | 2.7 | 2.4 | 4.3 | 4.0 | 3.7 | 4.2 | 3.0 | 3.4 |
| Nominal: | 7.6 | 4.7 | 7.3 | 7.1 | 6.4 | 5.5 | 6.0 | 7.0 |

## Monthly Statistical Highlights for April 1988

Personal income +0.4%; savings rate 4.2%; personal consumption +0.4%; construction expenditures +0.2%; business inventories +0.5%; consumption deflator +0.5%; leading indicators +0.6%; real GNP (AR) +3.5%.

## Monthly Statistical Highlights for May 1988

Payroll employment +316,000; index of hours worked +0.2%; household employment -78,000; civilian unemployment rate 5.4%; personal income +0.5%; savings rate 4.0%; personal consumption +0.5%; retail trade +0.3%; auto sales 10.0 million; housing starts +0.5%; housing permits +0.7%; construction expenditures +0.4%; business inventories +0.4%; orders for durable goods +1.0%; orders for nondefense capital goods +2.0%; industrial production +0.2%; CPI +0.5%; PPI +0.5%; consumption deflator +0.6%; leading indicators -0.1%; real GNP (AR) 1.8%; M1 (AR) +1.7%; M2 (AR) 8.5%.

## Commentary

Employment - The major problem with April's employment report is how much to believe. Although payroll employment slowed, household measures of employment surged. However, the household rebound was not unexpected, as that measure of employment fell sharply in the previous month. A sharp increase in the workweek may be related to problems with seasonal adjustment as a result of Easter. However, the April index of hours worked already is at an annual rate of 4% above the first-quarter average. This suggests some growth in activity during the spring. On the other hand, the diffusion index showed only 58% of all industries with increased hirings, a rate that is slightly below normal during an expansion. While a 0.5% increase in the hourly earnings index is disturbing, the previous month's index was revised down to only a 0.2% gain from an originally-reported 0.5% rise. Thus, more data will be needed to determine how strong employment gains really are. Nevertheless, confirmation of increased industrial production by the industrial production index suggests that the April employment report was stronger than it appeared on the surface.

Income and Outlays - In March, personal income surged because of increasing farm subsidies and a one-time adjustment for social security payments. These factors should not be present in April. However, wages probably increased sharply in that month. On the other hand, large increases in tax liabilities may have prevented any significant gains in disposable income. If so, the savings rate will fall sharply this month. However, the latest monthly report on government receipts does not reflect the increased tax liabilities that have been assumed. Possibly, adjustments to our estimates of disposable income will be necessary next month.

However, as the sharp increase in expected tax liabilities largely impacted savings, little adjustment will be made to consumption outlays. Automobile sales in April slowed only slightly as incentives were extended through the month. However, the termination of incentives in May should cause a significant slowing in auto activity. This will be reflected in auto sales estimate. Nevertheless, a rebound in nondurable sales following a post-Easter correction in April should add to retail sales. Despite a decline in automobile sales in April, consumer spending is expected to rise as a result of price-induced gains for nondurables and a continuation of moderate expansion in the service sector.

Construction - Single-family starts have begun reacting to rising mortgage rates even more rapidly than had been anticipated. Normally, a surge in sales develops as mortgage rates begin rising. This surge usually results in higher single-family starts. However, an already large inventory of unsold homes probably discouraged contractors from reacting to the modest increase in spring sales. Building permits show that housing starts probably will be trending downward for both single- and multi-family units in the next few months. A surge in public construction added to total construction expenditures during March. No new public initiatives were instituted. As a result, this must be a timing shift that will lead to slower construction activity in the next few months. The decline in single-family housing activity has been partially offset by a rebound in apartment construction. As a result, residential construction expenditures may continue to grow through most of this year. Toward the end of the year, however, the decline in housing starts will begin to have a restraining effect upon residential spending. Nonresidential construction appears to be holding at current levels. Construction orders have declined modestly in the past few months, which might suggest a slight decline in nonresidential activity late in spring and the early summer months.

Business Activity - Business inventories continue to be extraordinarily high at the wholesale level while returning to normal at the retail level. Manufacturing inventories are justified by the magnitude of manufacturing orders and shipments at the present time. Although manufacturing shipments declined in April, according to the advance durable goods report, inventories should continue to grow sharply through the remainder of this year. At some point, wholesalers probably will adjust their inventories downward, but anticipations of strong sales ahead have slowed the desire to adjust the inventories.

Orders for durable goods rose less than expected in April, despite a rebound in defense orders. Some of the weakness was recorded in nonelectrical machinery, which contradicts estimates of export activity. On the other hand, the dip in nondefense capital shipments in April probably is the result of seasonal adjustment problems between March and April. Growth in shipments is expected in the next few months.

Now that auto assemblies have climbed to current sales levels for domestic units, little further strength is expected from that sector. Some rebound in mining and utilities might be achieved in the next few months. However, most of the strength in industrial activity is expected to be generated in industrial materials.

Prices - The spring spurt in inflationary pressures as a result of rising oil prices has been less than anticipated. This is especially interesting as womens' clothing prices rose more sharply in the two-month period than at any time since 1973. Modest price changes for services appear to be the major restraining force. In April, an unexpected 1.5% decline in lodging prices following sharp spurts earlier in the year helped to hold down prices in the service component. As wages intensify, however, service inflation should rebound. On the other hand, oil prices are once again weakening following indecision by OPEC. Inflation probably will ease slightly in the summer months before re-intensifying late in the year.

Miscellaneous - As mentioned earlier, a sharp decline in merchandise trade deficits appears to be the result of a surprisingly strong export market. No evidence exists to suggest that that strong gain in exports is continuing. Therefore, a rebound in the trade deficit should be anticipated for April.

The leading indicators rebounded sharply in March and already should be aided by declines in initial unemployment claims and increases in the workweek in April. The real money stock in April also may be growing faster than in March. Orders were up slightly while building permits also advanced. Therefore, a further significant increase in the leading indicators should be expected for April.

## Financial Markets

While strong economic activity certainly justified some increase in interest rates, the surge in long-term interest rates relative to inflation is unprecedented for this stage of the cycle. Part of this surge is developing as a result of reluctance by the Federal Reserve to increase short-term interest rates. Investors also appear to be anticipating greater inflationary conditions in the months ahead than are warranted.

A rebounding economy will generate sharp increases in corporate profitability, increases in inventory investment, and encouraged growth in fixed investment. Especially in the second and third quarters, the corporate sector should significantly increase its borrowing needs.

Fortunately, the government sector will slightly reduce its borrowing requirements. Higher than anticipated economic activity along with increasing inflation have increased government revenues. Although some expenditures also are accelerating, especially as a result of higher oil prices, the deficits are gradually declining. It appears that the federal deficit as measured by national income accounts will be less than $155 billion for the current fiscal year. A slight dip from that level now is anticipated for the next fiscal year. This indicates that government borrowings probably will be neutral upon interest rate developments in the next two years.

The household sector is only gradually restraining itself. Although mortgage borrowings probably will top out in the summer months and decline slightly in the fall, lower savings rates indicate that household net contributions to the credit markets will diminish.

Thus, strong corporate and household borrowing needs more than offset stability in government bond supplies. Except for foreign investors, interest rates would be rising.

The foreign investor continues to be worried about potential currency losses. Stability of the dollar has helped, as Japanese investors have increased their presence in the financial markets in order to benefit from substantial interest rate differentials. Those differentials suggest that the yen will continue to appreciate against the dollar by more than 4% per year in the next few years. However, most investors are expecting greater stability. I believe these investors will prove to be wrong, but the effect has been one of stabilizing interest rates that otherwise could have increased sharply. When the dollar again comes under weakness in the summer, as expected, these foreign investors will back away from the marketplace. The result could be significant increases in interest rates, but the Federal Reserve probably will not accommodate such interest rate pressures just prior to a national election. Therefore, long-term interest rates will deteriorate while short-term interest rates will remain largely unchanged until after the election. Then, interest rates should rise briefly before succumbing to a weakening economy early in 1989.

Equity Markets - Higher interest rates do not bode well for the equity markets. On the other hand, corporate profitability probably will be stronger than originally anticipated. These two factors generally cancel each other out in analyzing the near-term direction of equity markets. If interest rates stabilize for a time in the summer, as expected, equity markets may again become encouraged by sharp increases in corporate profitability. Thus, a summer spurt in the stock market could develop, but this spurt should be contained to less than 2300 on the Dow Jones Index. After the elections, concerns about potential recessionary policies should lead to a market sell-off. Thus, the weakest prices of the year for equity ownership may occur late in 1988 and continue to show weakness early in 1989 until the dimensions of any economic weakness are more fully understood.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 102983 | 102983 | 121.9 | 121.9 | 113210 | 113210 | 6.0 | 6.0 | 174.9 | 174.9 |
| November | 103285 | 103285 | 122.2 | 122.2 | 113504 | 113504 | 5.9 | 5.9 | 175.8 | 175.8 |
| December | 103596 | 103612 | 121.0 | 121.8 | 113744 | 113744 | 5.8 | 5.8 | 175.4 | 175.7 |
| January 1988 | 103705 | 103827 | 121.7 | 122.4 | 113849 | 114129 | 5.8 | 5.8 | 176.2 | 176.4 |
| February | 103778 | 104365 | 121.9 | 123.7 | 114018 | 114409 | 5.8 | 5.7 | 177.0 | 176.5 |
| March | 103854 | 104661 | 122.1 | 123.1 | 114166 | 114103 | 5.8 | 5.6 | 177.8 | 176.8 |
| April | 103992 | 104835 | 122.0 | 124.3 | 114308 | 114713 | 5.8 | 5.4 | 178.0 | 177.6 |
| May | 104103 | 105151* | 122.1 | 124.5* | 114470 | 114635* | 5.8 | 5.4* | 178.2 | 177.5* |
| June | 104212 | 105467 | 122.2 | 124.6 | 114682 | 114812 | 5.8 | 5.4 | 178.5 | 177.8 |
| July | 104349 | 105623 | 122.4 | 124.9 | 114733 | 115093 | 5.9 | 5.4 | 179.1 | 178.4 |
| August | 104512 | 105807 | 122.6 | 125.3 | 114899 | 115405 | 5.9 | 5.2 | 179.7 | 179.1 |
| September | 104687 | 105991 | 122.7 | 125.7 | 115026 | 115717 | 5.9 | 5.2 | 180.4 | 179.8 |
| October | 104755 | 106117 | 122.9 | 125.6 | 115159 | 115843 | 6.0 | 5.2 | 180.8 | 180.2 |
| November | 104834 | 106266 | 123.1 | 125.4 | 115274 | 115926 | 5.9 | 5.1 | 181.2 | 180.6 |
| December | 104916 | 106415 | 123.2 | 125.7 | 115387 | 115988 | 5.9 | 5.2 | 181.5 | 180.9 |
| January 1989 | 105069 | 106563 | 123.4 | 125.9 | 115562 | 116124 | 5.8 | 5.1 | 182.2 | 181.5 |
| February | 105240 | 106528 | 123.6 | 125.7 | 115752 | 116325 | 5.9 | 5.1 | 182.8 | 182.2 |
| March | 105413 | 106757 | 123.9 | 125.9 | 115940 | 116528 | 5.9 | 5.1 | 183.5 | 182.9 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 3.854 | 3.854 | 2.258 | 2.258 | 181.9 | 177.0 | 3.279 | 3.280 | 3.097 | 3.103 |
| November | 3.836 | 3.840 | 2.272 | 2.272 | 145.2 | 145.0 | 3.257 | 3.261 | 3.112 | 3.116 |
| December | 3.865 | 3.869 | 2.281 | 2.281 | 153.9 | 145.0 | 3.282 | 3.284 | 3.128 | 3.139 |
| January 1988 | 3.869 | 3.873 | 2.286 | 2.293 | 185.4 | 153.7 | 3.317 | 3.297 | 3.132 | 3.143 |
| February | 3.881 | 3.895 | 2.298 | 2.307 | 180.6 | 154.5 | 3.327 | 3.323 | 3.146 | 3.168 |
| March | 3.893 | 3.924 | 2.309 | 2.319 | 179.1 | 157.1 | 3.338 | 3.341 | 3.160 | 3.190 |
| April | 3.903 | 3.940* | 2.315 | 2.334* | 169.5 | 139.6* | 3.348 | 3.346* | 3.178 | 3.206* |
| May | 3.914 | 3.958 | 2.320 | 2.342 | 170.6 | 133.5 | 3.357 | 3.352 | 3.186 | 3.219 |
| June | 3.925 | 3.976 | 2.324 | 2.350 | 175.6 | 127.3 | 3.368 | 3.359 | 3.194 | 3.232 |
| July | 3.940 | 3.993 | 2.336 | 2.364 | 164.2 | 125.4 | 3.376 | 3.379 | 3.212 | 3.254 |
| August | 3.955 | 4.009 | 2.348 | 2.379 | 130.3 | 123.1 | 3.384 | 3.398 | 3.254 | 3.275 |
| September | 3.970 | 4.025 | 2.360 | 2.395 | 131.5 | 122.9 | 3.392 | 3.418 | 3.260 | 3.295 |
| October | 3.989 | 4.043 | 2.366 | 2.403 | 153.7 | 125.3 | 3.408 | 3.429 | 3.254 | 3.304 |
| November | 4.007 | 4.061 | 2.374 | 2.406 | 146.6 | 128.3 | 3.423 | 3.442 | 3.276 | 3.314 |
| December | 4.025 | 4.079 | 2.382 | 2.410 | 143.7 | 131.4 | 3.439 | 3.455 | 3.298 | 3.324 |
| January 1989 | 4.042 | 4.098 | 2.397 | 2.425 | 147.7 | 146.7 | 3.462 | 3.497 | 3.314 | 3.350 |
| February | 4.062 | 4.120 | 2.411 | 2.440 | 150.4 | 147.6 | 3.480 | 3.514 | 3.330 | 3.366 |
| March | 4.083 | 4.142 | 2.425 | 2.454 | 153.7 | 148.4 | 3.499 | 3.529 | 3.346 | 3.381 |

Fore. = February Forecast

C.E. = Current Expectations

* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 3000.3 | 3006.5 | 404.2 | 403.4 | 981.7 | 985.4 | 1614.4 | 1617.7 | 2489.2 | 2494.6 |
| November | 3014.5 | 3019.2 | 412.2 | 412.0 | 984.9 | 993.7 | 1617.4 | 1613.5 | 2494.3 | 2499.9 |
| December | 3030.6 | 3042.0 | 424.9 | 423.5 | 983.5 | 1000.1 | 1622.2 | 1618.4 | 2506.2 | 2519.5 |
| January 1988 | 3033.9 | 3045.3 | 416.5 | 419.7 | 983.9 | 992.0 | 1633.5 | 1633.6 | 2503.2 | 2513.5 |
| February | 3048.6 | 3069.5 | 415.5 | 428.9 | 987.4 | 990.0 | 1645.7 | 1650.6 | 2509.1 | 2532.9 |
| March | 3060.5 | 3091.3 | 414.8 | 428.6 | 987.9 | 999.8 | 1657.8 | 1662.8 | 2512.7 | 2538.1 |
| April | 3072.2 | 3104.7* | 415.6 | 425.4* | 991.3 | 1006.4* | 1665.3 | 1672.9* | 2514.1 | 2536.5* |
| May | 3088.9 | 3118.6 | 416.6 | 426.3 | 996.4 | 1008.6 | 1675.9 | 1683.7 | 2517.4 | 2533.4 |
| June | 3100.9 | 3132.5 | 416.8 | 427.2 | 999.1 | 1010.9 | 1685.0 | 1694.4 | 2519.0 | 2530.3 |
| July | 3119.4 | 3152.0 | 418.5 | 430.6 | 1004.6 | 1016.6 | 1696.3 | 1704.8 | 2523.8 | 2539.9 |
| August | 3136.1 | 3177.2 | 421.3 | 439.4 | 1007.7 | 1022.3 | 1707.1 | 1715.5 | 2525.0 | 2558.1 |
| September | 3171.5 | 3192.1 | 442.7 | 440.4 | 1010.9 | 1025.6 | 1717.9 | 1726.1 | 2541.3 | 2566.0 |
| October | 3161.1 | 3190.9 | 418.3 | 423.6 | 1014.6 | 1030.5 | 1728.2 | 1736.8 | 2522.8 | 2552.7 |
| November | 3174.6 | 3211.6 | 419.5 | 427.3 | 1017.1 | 1036.6 | 1738.0 | 1747.7 | 2525.5 | 2552.9 |
| December | 3188.1 | 3231.8 | 420.9 | 431.0 | 1019.3 | 1042.3 | 1747.9 | 1758.5 | 2528.2 | 2554.8 |
| January 1989 | 3208.5 | 3247.4 | 423.5 | 431.9 | 1025.4 | 1045.6 | 1759.6 | 1769.9 | 2534.4 | 2559.0 |
| February | 3228.6 | 3263.0 | 425.0 | 432.7 | 1031.9 | 1049.3 | 1771.7 | 1781.0 | 2540.2 | 2565.3 |
| March | 3248.8 | 3277.2 | 426.6 | 432.0 | 1038.4 | 1053.0 | 1783.8 | 1792.2 | 2544.1 | 2570.4 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 125.63 | 125.63 | 19.92 | 19.92 | 9.3 | 9.3 | 76.97 | 76.97 | 28.74 | 28.74 |
| November | 125.77 | 125.99 | 20.20 | 20.27 | 9.9 | 9.9 | 77.02 | 77.20 | 28.55 | 28.51 |
| December | 126.68 | 127.47 | 20.34 | 20.56 | 10.9 | 10.9 | 77.08 | 77.63 | 29.25 | 29.29 |
| January 1988 | 126.06 | 127.28 | 20.11 | 20.38 | 10.4 | 10.4 | 77.12 | 77.04 | 28.83 | 29.87 |
| February | 126.47 | 130.12 | 20.24 | 20.19 | 10.0 | 11.0 | 77.36 | 80.41 | 28.87 | 29.52 |
| March | 126.44 | 132.40 | 20.37 | 20.54 | 9.6 | 10.7 | 77.33 | 81.83 | 28.74 | 30.04 |
| April | 126.95 | 131.58 | 20.20 | 20.53 | 9.7 | 10.5 | 77.69 | 81.33 | 29.06 | 29.72 |
| May | 127.51 | 132.01* | 20.16 | 20.79* | 9.9 | 10.0* | 78.10 | 81.96* | 29.25 | 29.26* |
| June | 127.95 | 132.59 | 20.07 | 21.01 | 10.2 | 10.1 | 78.50 | 82.24 | 29.38 | 29.34 |
| July | 128.05 | 133.64 | 20.16 | 21.23 | 10.0 | 10.2 | 78.86 | 82.89 | 29.03 | 29.[illegible] |
| August | 129.39 | 134.91 | 20.33 | 21.20 | 10.5 | 10.5 | 79.08 | 83.35 | 29.98 | 30.36 |
| September | 132.67 | 135.53 | 20.28 | 20.75 | 11.2 | 10.8 | 79.29 | 83.62 | 33.10 | 31.16 |
| October | 128.86 | 134.04 | 20.20 | 20.64 | 9.6 | 9.9 | 79.53 | 84.02 | 29.13 | 29.38 |
| November | 129.47 | 134.88 | 20.24 | 20.80 | 9.8 | 10.0 | 79.76 | 84.52 | 29.47 | 29.56 |
| December | 130.37 | 135.78 | 20.28 | 21.07 | 10.1 | 10.0 | 79.98 | 84.98 | 30.11 | 29.73 |
| January 1989 | 130.98 | 136.16 | 20.33 | 20.95 | 10.1 | 10.1 | 80.43 | 85.25 | 30.22 | 29.96 |
| February | 131.49 | 136.56 | 20.26 | 20.81 | 10.1 | 10.2 | 80.88 | 85.56 | 30.35 | 30.19 |
| March | 131.78 | 136.78 | 20.38 | 20.62 | 10.0 | 10.2 | 81.32 | 85.86 | 30.08 | 30.30 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 1.537 | 1.538 | 1.105 | 1.105 | 1.463 | 1.463 | 403.5 | 398.9 | 351.2 | 349.3 |
| November | 1.639 | 1.661 | 1.110 | 1.129 | 1.469 | 1.469 | 411.3 | 404.0 | 354.8 | 351.8 |
| December | 1.374 | 1.399 | 1.023 | 1.035 | 1.340 | 1.361 | 409.7 | 403.9 | 354.6 | 353.7 |
| January 1988 | 1.390 | 1.382 | 0.996 | 1.016 | 1.285 | 1.257 | 393.8 | 394.5 | 339.8 | 345.2 |
| February | 1.478 | 1.519 | 1.035 | 1.102 | 1.362 | 1.422 | 402.1 | 396.0 | 345.4 | 345.2 |
| March | 1.526 | 1.554 | 1.076 | 1.176 | 1.443 | 1.476 | 408.8 | 401.8 | 350.0 | 349.5 |
| April | 1.525 | 1.561 | 1.085 | 1.095 | 1.441 | 1.416 | 407.4 | 402.7* | 347.9 | 349.0* |
| May | 1.538 | 1.568* | 1.092 | 1.128* | 1.452 | 1.426* | 405.3 | 404.1 | 345.5 | 349.3 |
| June | 1.524 | 1.553 | 1.072 | 1.139 | 1.443 | 1.407 | 405.7 | 406.3 | 345.3 | 349.9 |
| July | 1.532 | 1.521 | 1.086 | 1.108 | 1.447 | 1.386 | 410.6 | 408.5 | 347.7 | 350.9 |
| August | 1.533 | 1.496 | 1.092 | 1.102 | 1.443 | 1.372 | 412.6 | 410.5 | 347.6 | 351.8 |
| September | 1.535 | 1.492 | 1.098 | 1.095 | 1.446 | 1.389 | 414.5 | 412.3 | 347.4 | 352.1 |
| October | 1.561 | 1.496 | 1.115 | 1.086 | 1.463 | 1.406 | 418.2 | 411.1 | 349.1 | 350.2 |
| November | 1.576 | 1.503 | 1.123 | 1.083 | 1.489 | 1.389 | 421.0 | 409.9 | 350.3 | 348.3 |
| December | 1.591 | 1.502 | 1.131 | 1.079 | 1.502 | 1.401 | 423.7 | 408.9 | 351.3 | 346.2 |
| January 1989 | 1.569 | 1.478 | 1.109 | 1.067 | 1.501 | 1.375 | 427.0 | 410.1 | 352.9 | 346.1 |
| February | 1.573 | 1.465 | 1.115 | 1.053 | 1.496 | 1.364 | 430.0 | 411.2 | 353.9 | 345.8 |
| March | 1.556 | 1.452 | 1.094 | 1.050 | 1.453 | 1.348 | 433.0 | 412.2 | 354.9 | 345.5 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 128.7 | 127.7 | 76.8 | 76.7 | 198.6 | 194.5 |
| November | 133.8 | 133.3 | 77.7 | 76.9 | 199.8 | 193.7 |
| December | 129.3 | 131.8 | 79.6 | 77.6 | 200.8 | 194.5 |
| January 1988 | 125.9 | 127.2 | 75.8 | 75.3 | 192.1 | 192.0 |
| February | 128.2 | 128.0 | 76.9 | 78.1 | 197.0 | 189.9 |
| March | 129.4 | 128.1 | 77.3 | 82.3 | 202.1 | 191.4 |
| April | 129.2 | 128.3* | 77.8 | 80.6* | 200.4 | 193.8* |
| May | 128.6 | 128.6 | 78.1 | 80.0 | 198.6 | 195.5 |
| June | 128.0 | 128.8 | 78.5 | 80.3 | 199.2 | 197.2 |
| July | 127.9 | 128.5 | 79.0 | 80.5 | 203.7 | 199.5 |
| August | 128.3 | 128.9 | 79.3 | 80.9 | 205.0 | 200.7 |
| September | 128.6 | 129.2 | 79.6 | 81.3 | 206.3 | 201.8 |
| October | 128.7 | 129.0 | 80.0 | 81.6 | 209.5 | 200.5 |
| November | 129.0 | 128.8 | 80.3 | 81.9 | 211.7 | 199.2 |
| December | 129.4 | 128.9 | 80.5 | 82.1 | 213.8 | 197.9 |
| January 1989 | 130.0 | 129.0 | 81.4 | 82.5 | 215.6 | 198.6 |
| February | 130.4 | 129.1 | 82.0 | 82.9 | 217.6 | 199.2 |
| March | 130.9 | 129.2 | 82.6 | 83.3 | 219.5 | 199.7 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 328.6 | 328.6 | 111.09 | 111.09 | 30.41 | 30.42 | 28.99 | 28.99 |
| November | 331.8 | 331.8 | 110.95 | 110.95 | 30.09 | 30.09 | 28.62 | 28.62 |
| December | 333.2 | 333.2 | 116.41 | 116.41 | 33.56 | 33.56 | 30.47 | 30.73 |
| January 1988 | 334.7 | 336.8 | 113.62 | 114.20 | 30.29 | 34.79 | 29.06 | 30.65 |
| February | 335.5 | 338.4 | 112.18 | 114.26 | 29.93 | 33.75 | 29.65 | 30.71 |
| March | 336.2 | 339.4 | 113.35 | 115.31 | 30.13 | 32.46 | 30.21 | 31.69 |
| April | 338.5 | 340.9* | 113.02 | 116.28 | 30.06 | 32.90 | 30.06 | 30.90 |
| May | 339.8 | 342.8 | 113.47 | 117.43* | 30.15 | 33.55* | 30.21 | 31.26* |
| June | 341.5 | 345.0 | 114.46 | 114.39 | 30.53 | 32.16 | 30.36 | 31.75 |
| July | 343.0 | 345.9 | 115.53 | 114.62 | 31.02 | 32.49 | 30.55 | 32.39 |
| August | 345.1 | 346.8 | 115.06 | 116.21 | 30.97 | 33.31 | 30.77 | 32.71 |
| September | 346.2 | 347.7 | 115.91 | 115.05 | 31.17 | 32.75 | 30.98 | 33.04 |
| October | 347.6 | 349.8 | 116.62 | 114.85 | 31.43 | 32.93 | 31.14 | 32.83 |
| November | 348.9 | 351.9 | 116.85 | 114.37 | 31.62 | 32.86 | 31.34 | 32.95 |
| December | 350.8 | 354.0 | 116.21 | 116.27 | 31.26 | 33.14 | 31.55 | 32.90 |
| January 1989 | 352.1 | 355.8 | 114.49 | 116.63 | 30.57 | 33.20 | 30.86 | 33.14 |
| February | 353.9 | 357.4 | 115.86 | 115.08 | 31.35 | 32.86 | 31.24 | 33.22 |
| March | 355.6 | 359.0 | 116.63 | 114.82 | 31.50 | 32.53 | 31.61 | 32.85 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 687.7 | 689.9 | 9.13 | 9.13 | 132.5 | 132.5 | 81.9 | 81.9 |
| November | 695.5 | 696.4 | 9.24 | 9.24 | 133.1 | 133.2 | 82.0 | 82.1 |
| December | 698.3 | 702.9 | 10.23 | 10.09 | 133.3 | 133.9 | 82.2 | 82.4 |
| January 1988 | 700.3 | 705.9 | 9.26 | 8.43 | 133.1 | 134.4 | 82.2 | 82.5 |
| February | 702.4 | 708.0** | 9.83 | 8.50 | 132.5 | 134.4 | 81.6 | 82.4 |
| March | 706.0 | 720.0 | 10.40 | 9.52 | 132.5 | 134.7 | 81.4 | 82.4 |
| April | 708.5 | 723.5* | 9.95 | 8.58 | 132.2 | 135.6 | 81.0 | 82.7 |
| May | 711.3 | 726.4 | 9.86 | 8.50* | 132.4 | 135.9* | 81.0 | 82.8* |
| June | 714.9 | 729.4 | 9.78 | 8.58 | 132.6 | 136.2 | 81.0 | 82.8 |
| July | 717.1 | 732.3 | 9.85 | 8.46 | 133.2 | 136.5 | 81.3 | 82.9 |
| August | 720.3 | 734.5 | 9.98 | 8.54 | 133.6 | 136.8 | 81.4 | 82.9 |
| September | 723.0 | 736.7 | 10.11 | 8.63 | 134.0 | 137.1 | 81.5 | 83.0 |
| October | 726.4 | 740.8 | 10.05 | 8.60 | 134.0 | 137.2 | 81.3 | 82.9 |
| November | 729.1 | 745.8 | 10.02 | 8.77 | 134.2 | 137.0 | 81.3 | 82.7 |
| December | 732.4 | 750.6 | 9.96 | 8.95 | 134.4 | 137.0 | 81.3 | 82.6 |
| January 1989 | 735.6 | 753.4 | 10.03 | 9.00 | 134.8 | 136.9 | 81.4 | 82.4 |
| February | 738.9 | 756.4 | 10.10 | 9.01 | 135.4 | 137.0 | 81.7 | 82.3 |
| March | 740.9 | 759.3 | 10.17 | 9.00 | 136.0 | 137.0 | 82.0 | 82.2 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.
** = Break in Series

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | -17.63 | -17.63 | 193.3 | 192.8 | 4583 | 4590 | 3868 | 3873 | -21.6 | -21.6 |
| November | -13.22 | -13.22 | 191.0 | 190.7 | 4595 | 4601 | 3871 | 3876 | -23.9 | -23.9 |
| December | -13.80 | -12.20 | 190.7 | 191.0 | 4616 | 4631 | 3882 | 3895 | -21.1 | -23.2 |
| January 1988 | -13.62 | -12.44 | 190.5 | 188.9 | 4620 | 4638 | 3876 | 3894 | -16.3 | -17.8 |
| February | -13.26 | -13.82 | 191.0 | 191.8 | 4620 | 4660 | 3866 | 3903 | -14.4 | -16.5 |
| March | -14.19 | -9.75 | 190.7 | 193.3 | 4639 | 4685 | 3872 | 3917 | -12.2 | -16.4 |
| April | -13.76 | -12.00* | 190.3 | 194.5 | 4655 | 4710 | 3873 | 3922 | -11.3 | -19.6 |
| May | -12.55 | -12.29 | 190.7 | 194.2 | 4677 | 4740 | 3881 | 3927 | -16.9 | -22.3 |
| June | -11.64 | -12.43 | 190.2 | 194.5 | 4700 | 4769 | 3891 | 3935 | -25.5 | -22.6 |
| July | -13.89 | -12.96 | 190.6 | 194.8 | 4726 | 4793 | 3899 | 3945 | -23.8 | -23.4 |
| August | -14.26 | -11.85 | 191.4 | 194.5 | 4752 | 4814 | 3905 | 3952 | -22.2 | -22.8 |
| September | -13.46 | -11.74 | 191.8 | 194.1 | 4778 | 4835 | 3910 | 3960 | -20.6 | -22.1 |
| October | -14.35 | -13.36 | 191.5 | 194.6 | 4800 | 4852 | 3918 | 3961 | -18.4 | -21.4 |
| November | -13.63 | -12.84 | 191.3 | 195.3 | 4820 | 4870 | 3926 | 3966 | -17.4 | -20.1 |
| December | -11.67 | -12.43 | 190.8 | 195.6 | 4841 | 4887 | 3936 | 3967 | -16.5 | -18.8 |
| January 1989 | -12.43 | -12.21 | 190.5 | 195.4 | 4868 | 4909 | 3942 | 3968 | -19.3 | -18.5 |
| February | -12.06 | -11.93 | 190.9 | 195.3 | 4896 | 4936 | 3948 | 3977 | -22.4 | -19.0 |
| March | -12.32 | -12.65 | 191.1 | 195.7 | 4924 | 4963 | 3952 | 3986 | -25.4 | -18.4 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 114.9 | 115.0 | 106.1 | 106.1 | 103.9 | 103.9 | 118.5 | 118.5 |
| November | 115.3 | 115.3 | 106.1 | 106.1 | 104.2 | 104.2 | 118.7 | 118.7 |
| December | 115.4 | 115.5 | 105.8 | 105.7 | 104.1 | 104.2 | 118.9 | 118.9 |
| January 1988 | 115.6 | 115.9 | 106.1 | 106.1 | 104.3 | 104.3 | 119.2 | 119.1 |
| February | 115.8 | 116.1 | 106.1 | 105.9 | 104.3 | 104.4 | 119.5 | 119.4 |
| March | 116.1 | 116.7 | 106.2 | 106.5 | 104.5 | 104.7 | 119.8 | 119.6 |
| April | 116.5 | 117.2 | 106.4 | 107.0 | 105.0 | 105.6 | 120.2 | 120.1 |
| May | 116.9 | 117.8* | 106.6 | 107.5* | 105.4 | 105.9* | 120.5 | 120.7 |
| June | 117.4 | 118.3 | 107.0 | 107.9 | 105.8 | 105.9 | 120.8 | 121.2 |
| July | 117.9 | 118.7 | 107.5 | 108.2 | 106.3 | 106.8 | 121.2 | 121.5 |
| August | 118.3 | 119.1 | 107.8 | 108.4 | 106.7 | 107.5 | 121.7 | 121.8 |
| September | 118.9 | 119.5 | 108.4 | 108.6 | 105.2 | 106.4 | 122.2 | 122.1 |
| October | 119.3 | 120.0 | 108.8 | 108.9 | 107.5 | 107.8 | 122.5 | 122.5 |
| November | 119.6 | 120.5 | 109.0 | 109.3 | 107.8 | 108.0 | 122.7 | 122.8 |
| December | 119.9 | 121.0 | 109.2 | 109.8 | 108.0 | 108.1 | 123.0 | 123.2 |
| January 1989 | 120.4 | 121.4 | 109.5 | 110.2 | 108.6 | 108.6 | 123.5 | 123.7 |
| February | 120.9 | 121.8 | 109.8 | 110.5 | 109.4 | 109.1 | 124.0 | 124.1 |
| March | 121.3 | 122.2 | 110.1 | 110.8 | 110.3 | 109.5 | 124.6 | 124.5 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 120.5 | 120.5 | 107.3 | 107.2 | 113.5 | 113.5 | 129.4 | 129.4 | 114.9 | 114.2 |
| November | 120.9 | 120.8 | 107.6 | 107.4 | 113.8 | 113.7 | 129.8 | 129.9 | 115.9 | 114.8 |
| December | 120.9 | 120.7 | 108.1 | 107.6 | 113.6 | 113.5 | 130.1 | 130.1 | 115.5 | 114.2 |
| January 1988 | 121.2 | 121.1 | 108.0 | 107.4 | 113.4 | 113.4 | 130.6 | 130.7 | 115.9 | 114.3 |
| February | 121.5 | 121.2 | 107.8 | 107.4 | 113.5 | 113.3 | 131.2 | 131.1 | 116.4 | 114.7 |
| March | 121.8 | 121.8 | 107.9 | 107.5 | 113.6 | 114.2 | 131.7 | 131.6 | 116.8 | 115.0 |
| April | 122.2 | 122.4* | 108.3 | 107.9* | 113.9 | 115.2* | 132.3 | 132.2* | 117.1 | 115.4* |
| May | 122.7 | 123.1 | 108.5 | 108.1 | 114.3 | 115.7 | 132.9 | 132.8 | 117.3 | 115.7 |
| June | 123.1 | 123.8 | 108.7 | 108.3 | 114.6 | 116.1 | 133.5 | 133.4 | 117.5 | 116.1 |
| July | 123.6 | 124.1 | 109.0 | 108.8 | 115.1 | 116.3 | 134.0 | 133.9 | 118.1 | 116.4 |
| August | 124.2 | 124.2 | 109.3 | 109.2 | 115.7 | 116.5 | 134.5 | 134.4 | 118.7 | 116.7 |
| September | 124.8 | 124.4 | 109.5 | 109.0 | 116.3 | 116.6 | 135.0 | 135.0 | 119.3 | 117.1 |
| October | 125.3 | 125.0 | 109.8 | 109.3 | 116.8 | 117.3 | 135.6 | 135.5 | 119.8 | 117.4 |
| November | 125.7 | 125.8 | 109.7 | 109.2 | 117.3 | 118.1 | 136.2 | 136.0 | 120.2 | 117.7 |
| December | 126.1 | 126.5 | 109.7 | 109.4 | 117.7 | 118.8 | 136.8 | 136.6 | 120.6 | 118.1 |
| January 1989 | 126.6 | 126.9 | 110.1 | 109.6 | 118.2 | 119.2 | 137.4 | 137.2 | 121.0 | 118.5 |
| February | 127.1 | 127.2 | 110.3 | 109.9 | 118.6 | 119.5 | 138.0 | 137.7 | 121 5 | 118.9 |
| March | 127.7 | 127.5 | 110.5 | 110.2 | 119.0 | 119.9 | 138.6 | 138.3 | 122.0 | 119.3 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 265.4 | 265.2 | 760.7 | 756.2 | 2892.5 | 2894.6 | 7.29 | 7.29 | 6.69 | 6.69 |
| November | 267.3 | 267.2 | 756.6 | 752.7 | 2891.1 | 2896.5 | 6.69 | 6.69 | 6.19 | 6.19 |
| December | 267.8 | 267.2 | 753.0 | 750.8 | 2895.6 | 2901.0 | 6.77 | 6.77 | 6.36 | 6.36 |
| January 1988 | 272.3 | 271.3 | 761.4 | 758.9 | 2916.8 | 2924.9 | 6.83 | 6.83 | 6.25 | 6.25 |
| February | 273.5 | 272.0 | 765.4 | 759.6 | 2930.6 | 2946.1 | 6.56 | 6.58 | 5.94 | 5.96 |
| March | 274.8 | 272.5 | 769.5 | 763.1 | 2944.4 | 2967.7 | 6.50 | 6.58 | 6.08 | 5.91 |
| April | 276.5 | 275.2 | 773.8 | 770.2 | 2959.3 | 2992.3 | 6.41 | 6.87 | 6.01 | 6.21 |
| May | 278.7 | 278.0* | 779.2 | 771.3* | 2977.8 | 3012.6* | 6.26 | 6.98* | 5.96 | 6.28* |
| June | 280.9 | 280.8 | 784.6 | 772.5 | 2995.9 | 3032.8 | 6.26 | 7.09 | 5.92 | 6.35 |
| July | 282.3 | 282.3 | 790.0 | 778.9 | 3013.4 | 3050.6 | 6.30 | 7.10 | 6.06 | 6.39 |
| August | 283.7 | 283.6 | 795.8 | 785.0 | 3028.6 | 3069.7 | 6.38 | 7.05 | 6.01 | 6.35 |
| September | 285.0 | 285.0 | 801.5 | 791.2 | 3042.9 | 3088.8 | 6.46 | 7.11 | 6.08 | 6.40 |
| October | 286.7 | 286.8 | 803.6 | 793.7 | 3060.3 | 3100.2 | 6.50 | 7.20 | 6.15 | 6.56 |
| November | 288.5 | 288.2 | 805.8 | 794.3 | 3075.9 | 3111.8 | 6.59 | 7.43 | 6.18 | 6.75 |
| December | 290.3 | 289.6 | 808.0 | 795.1 | 3091.5 | 3123.4 | 6.68 | 7.45 | 6.17 | 6.79 |
| January 1989 | 291.8 | 291.3 | 813.1 | 803.6 | 3107.3 | 3142.6 | 6.73 | 7.26 | 6.20 | 6.53 |
| February | 293.3 | 292.6 | 818.3 | 811.6 | 3126.2 | 3159.7 | 6.85 | 7.15 | 6.18 | 6.45 |
| March | 294.7 | 294.0 | 822.9 | 819.5 | 3145.0 | 3176.3 | 6.76 | 7.08 | 6.10 | 6.41 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| October 1987 | 10.52 | 10.52 | 8.70 | 8.70 | 7.89 | 7.89 | 8.02 | 8.02 | 9.07 | 9.07 |
| November | 10.01 | 10.01 | 7.95 | 7.95 | 7.17 | 7.17 | 7.24 | 7.24 | 8.78 | 8.78 |
| December | 10.11 | 10.11 | 7.96 | 7.96 | 7.61 | 7.61 | 7.66 | 7.66 | 8.75 | 8.75 |
| January 1988 | 9.88 | 9.88 | 7.66 | 7.69 | 6.87 | 6.87 | 6.92 | 6.92 | 8.75 | 8.75 |
| February | 9.93 | 9.40 | 7.75 | 7.49 | 6.43 | 6.58 | 6.50 | 6.60 | 8.51 | 8.51 |
| March | 9.82 | 9.39 | 7.61 | 7.74 | 6.40 | 6.62 | 6.49 | 6.63 | 8.42 | 8.50 |
| April | 9.56 | 9.67 | 7.36 | 7.81 | 6.28 | 6.86 | 6.37 | 6.92 | 8.25 | 8.50 |
| May | 9.43 | 9.78* | 7.24 | 7.90* | 6.25 | 7.03* | 6.35 | 7.09* | 8.25 | 8.89 |
| June | 9.30 | 9.89 | 7.12 | 7.95 | 6.28 | 7.15 | 6.38 | 7.22 | 8.25 | 9.00 |
| July | 9.25 | 10.05 | 7.03 | 8.09 | 6.35 | 7.22 | 6.42 | 7.29 | 8.25 | 9.00 |
| August | 9.29 | 10.08 | 7.11 | 8.11 | 6.42 | 7.16 | 6.50 | 7.23 | 8.25 | 9.00 |
| September | 9.33 | 10.12 | 7.18 | 8.16 | 6.45 | 7.20 | 6.54 | 7.28 | 8.25 | 9.00 |
| October | 9.50 | 10.20 | 7.34 | 8.23 | 6.61 | 7.27 | 6.69 | 7.35 | 8.25 | 9.00 |
| November | 9.56 | 10.26 | 7.41 | 8.30 | 6.64 | 7.50 | 6.73 | 7.62 | 8.25 | 9.36 |
| December | 9.62 | 10.32 | 7.48 | 8.36 | 6.70 | 7.43 | 6.78 | 7.51 | 8.25 | 9.50 |
| January 1989 | 9.75 | 10.20 | 7.61 | 8.31 | 6.78 | 7.18 | 6.85 | 7.26 | 8.25 | 9.50 |
| February | 9.89 | 10.05 | 7.71 | 8.09 | 6.86 | 7.10 | 6.94 | 7.17 | 8.25 | 9.50 |
| March | 9.85 | 9.88 | 7.63 | 7.90 | 6.73 | 7.02 | 6.86 | 7.11 | 8.25 | 9.50 |

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

6/10/88

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# MONTHLY PROJECTIONS
May 1988

Dr. Donald Ratajczak, Director
For Release: June 6, 1988

## SOME SIGNS OF SLOWING BEGIN TO APPEAR

Just as the economy appeared headed for a seriously overheated situation, consumers began to react to higher clothing and automobile prices by deferring purchases. An increase in tax liabilities, especially for those who waited until April to pay their taxes, also restrained the ability of the consumer to maintain a vigorous spending path. These factors combined to cause inflation-adjusted consumption to fall below February levels in April and probably to decline slightly further in May.

Also, the surge in export activity in March was so large that a pause definitely can be expected during the spring. Further gains in exports almost certainly will develop later in the year, unless the dollar continues its current rally, but a pause in the expansion of industrial activity is beginning. This pause is evident in the slowing of price increases for crude materials other than food and energy. Also, vendor delivery delays, which had soared to an index of 71 in December, have now fallen to a more moderate 62 index in April.

To be sure, manufacturing orders remain robust, especially the 1.5% increase in nondurable goods orders in April. Durable goods also experienced solid order growth, although defense communications aided that sector. Strong order gains are anticipated in the next two months as a result of significant aircraft orders. Excluding aircraft, however, orders are expected to flatten.

This reduced growth in industrial activity is coming just as wage pressures are beginning to intensify and as a six-month increase in industrial material prices has begun to spill into consumer prices. Fortunately, oil prices once again have stabilized following a mini-surge leading up to the spring OPEC meetings. Price stability in this important crude material is anticipated through much of the summer before the heating season once again exerts upward pressures upon oil prices.

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More significantly, agricultural prices are beginning to raise inflationary concerns. An unusually dry spring has significantly delayed the planting of grains, especially soybeans. With difficulties in the Brazilian growing season earlier this year, the excess supply of beans around the world has been sharply reduced. As dryness has delayed plantings, the possibility that planting will take place too late to insure normal yields has begun to increase. The crisis period has not yet arrived. Therefore, timely rains in the next two weeks can still eliminate the latest grain price inflation fears. Nevertheless, may be scarce and animal feed prices rise sharply. If so, substantial meat supplies will be available through the fall, but higher feed costs almost certainly will lead to premature slaughters and a sharp reduction in meat production by next spring. Thus, increased inflationary concerns in 1989 may materialize.

In the meantime, both the consumer price index and the producer price index for finished goods should show slower rates of increase by the May or June reports. Coupled with slower gains in industrial activity, upward interest rate pressures should be arrested. Indeed, financial markets may perform well in the summer, with the stock market generating an old-fashioned summer rally. Unfortunately, these more-favorable inflationary conditions near-term are not expected to persist. By the fall, inflation once again should become a concern as oil prices rebound. Moreover, if agricultural prices pose a problem, that inflationary risk will materialize by the end of fall. These heightened inflationary pressures almost certainly would lead to a Federal Reserve response that would substantially restrict the growth of bank reserves. Higher short- and long-term interest rates are expected to develop. The economy then would slow its growth further, causing some reduction in credit market pressure by next spring.

## NEW SERIES ARE ADDED

At the request of our subscribers, several new data series have been added to the miscellaneous table. All these series have been projected on a quarterly basis by our quarterly forecast, but they have only now been estimated on a monthly basis consistent with that forecast.

The first series is a Federal Reserve trade-weighted index for the dollar. Because our projections suggest that the March improvement in the trade balance was an abberation, the dollar is expected to decline next year. However, recent interest rate increases along with strength in the domestic economy have improved the attractiveness of American financial assets. As a result, a minor dollar rally is expected in the next two months. Then, the dollar is expected to lose about 6% in value against the major currencies over the next year. Our current assessment is that the yen will regain the title as world's strongest currency that was recently wrested from it by the British pound. Indeed, the pound probably is vulnerable to a significant decline as favorable trade balances begin to deteriorate there. Near stability of the dollar is expected to be achieved early in 1989.

The second series is an estimate of adjusted profits. This is operating profits less estimated tax liabilities. Because of increased economic activity and some improvement in profit margins, adjusted profits are expected to rise slightly into the fall. Then, the combination of stronger wage increases and slower economic growth will combine to restrict profit gains. Profits are expected to trend downward early in 1989. Nevertheless, current profits anticipations are significantly above forecasted values. This large discrepancy is the result of the upward revision in GNP that developed in the first quarter, after our forecast was completed. These revised GNP estimates create more than proportionate revisions in profit estimates, as profits are partially determined as a residual income component.

The thirty-year government bond already may have seen its first yield peak in late May. A moderate bond market rally is anticipated during the summer. However, increased inflationary pressures late in the year should cause a recurrence of bond price weakness. Then, as the economy slows, and as the Federal Reserve moves toward more aggressive restraint of bank deposits, long-term interest rates are expected once again to decline. About a year from now, government interest rates are expected to be at current levels.

Estimates of adjusted profits, corporate bond yields, and short-term interest rates are used to generate an estimate of sustainable equity values. Actual equity values can deviate significantly from these sustainable estimates, as they did through much of 1987. Thus, our estimate of the New York Composite Index should not be construed as a projection of actual stock market prices. However, the estimates are suggestive. They indicate that economic conditions are favorable for a summer rally in the equity markets at the present time. However, those economic conditions will not remain favorable if our projections are correct. As a result, some decline in equity values is expected early in 1989. Investment risks may be slightly greater in equities than in long-term government bonds at the present time. The weaker-than-forecasted equity values despite stronger-than-forecasted profits and interest rates that are comparable to forecasted values may indicate an unduly pessimistic projection of equity values. Perhaps, some adjustments may be needed in the projections process. However, the general assumption that a summer rally may materialize and then be followed by renewed downward pressures in equity values appears to be valid.

## Quarterly Profile of GNP

| | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1989-2 | 1988 Annual | 1989 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 3.9 | 3.3 | 2.2 | 2.0 | 1.1 | 0.5 | 3.6 | 1.4 |
| Price: | 1.7 | 4.1 | 5.1 | 4.0 | 5.0 | 4.9 | 3.1 | 4.7 |
| Nominal: | 5.4 | 7.7 | 7.3 | 6.4 | 6.0 | 5.4 | 5.8 | 6.2 |

## Monthly Statistical Highlights for May 1988

Payroll employment +215,000; index of hours worked +0.2%; household employment +192,000; civilian unemployment rate 5.4%; personal income +0.4%; savings rate 4.4%; personal consumption +0.3%; retail sales -0.3%; auto sales 10.0 million units; housing starts -3.2%; housing permits -0.8%; construction expenditures +0.5%; business inventories +0.5%; orders for durable goods +0.4%; orders for nondefense capital goods +1.7%; industrial production +0.4%; CPI +0.5%; PPI +0.5; consumption deflator +0.5%; leading indicators +0.1%; currency index +1.3%; equity index -1.8%; real GNP(AR) +2.8%; M1(AR) +3.6%; M2(AR) +5.8%.

## Monthly Statistical Highlights for June 1988

Payroll employment +236,000; index of hours worked +0.2%; household employment +295,000; civilian unemployment rate 5.3%; personal income +0.5%; savings rate 4.3%; personal consumption +0.4%; retail sales +0.1%; auto sales 9.8 million units; housing starts +0.9%; housing permits +1.5%; construction expenditures -0.0%; business inventories +0.4%; orders for durable goods -1.7%; orders for nondefense capital goods -2.8%; industrial production +0.2%; CPI +0.4%; PPI +0.3%; consumption deflator +0.5%; leading indicators -0.1%; currency index +0.8%; equity index -0.9%; real GNP(AR) +0.3%; M1(AR) +6.2%; M2(AR) +6.2%.

## Commentary

Employment - Initial unemployment claims have increased slightly over the past month. This suggests that rapid growth in employment probably has come to an end. Moreover, the insured unemployment rate has remained at 2.1% for six weeks. While some decline in the unemployment rate could materialize, greater stability in the number unemployed is more likely.

Income and Outlays - Personal income grew a negligible amount as a result of the absence of special social security accruals, a decline in farm subsidies, and the absence of profit-sharing bonuses at Ford. Excluding these special factors, personal income would have expanded 0.6%. A continuation of moderate income growth should be expected in the next two months. Tax liabilities jumped even higher than had been anticipated. As a result, disposable income fell even below unusually modest anticipations. This squeeze upon purchasing power may have had a slight restraining effect upon consumer spending. The increase in tax liabilities probably reflected increased tax burdens of those taxpayers who waited to the last minute to file. If such a distortion in the flow of tax liabilities developed, as expected, tax liabilities should decline slightly in the next few months. (Why the increased tax liabilities did not show up in Treasury receipts for April remains an enigma, unless corporate tax collections fell sharply that month.)

This temporary increase in tax liabilities apparently is sharp enough to restrain consumer outlays. Of course, higher prices for female garments and a reduction in the incentives provided to automobile purchasers also are restraining consumption. As a result, real consumer spending appears to be declining slightly during the second quarter. Even the service component is expected to show minimal expenditures growth as stock market trading has significantly slowed. However, a spurt in trading in the latest week might cause a rebound in those expenditures during June. This weakness in consumer spending also is reflected in estimates of retail sales, which are expected to show minimal growth in the next two months. End-of-model-year auto incentives still are anticipated, which will again generate an auto boomlet in late summer followed by sluggishness in the fall.

Construction - Although housing sales have benefitted from fears of rising mortgage rates, those fears already are restraining financing of developers. As a result, single-family starts are expected to slow significantly in the next few months. In April, housing starts rose, but only because of a temporary increase in apartment activity. Apartment vacancy rates remain high while rental rates remain low. Therefore, conditions are not yet in place to stimulate any significant rebound in that sector of the housing market.

Relative weakness in housing activity will be reflected in minimal growth in residential construction expenditures over the next year. Also, public construction spurted in March as a result of stepped-up highway activity. These gains were unsustainable and public construction has since slowed. Later in the year, budget problems faced by many states will constrain construction activity. Indeed, there will be little nominal growth in construction spending over the next year. The construction deflator actually fell in April, but this must be an abberation. Most construction material prices are rising, if only slowly. Next year, construction costs are expected to rise 3%, but this is a downward revision in construction inflation from what had previously been projected.

Business Activity - Thus far, there has been few surprises in overall business activity. The spurt in March shipments was followed by a slowing in April. More moderate shipment growth rates are expected both for defense and nondefense capital goods in the next few months. Aircraft orders should sustain orders for all durable goods in May, but orders may begin weakening in June. Our current estimates are that business activity will show modest growth in shipments during the year while orders will remain flat. The backlog will continue to grow until early 1989, but then declining backlogs should begin to restrain shipments.

Business inventories also are showing more moderate rates of increase than had been anticipated. If manufacturing activity slows its rate of growth, some inventory excesses in manufacturing may begin to appear; but no serious inventory overhang is anticipated there. The consumer slowdown may temporarily create some retail inventory pressures, but any excesses there should be eliminated within a few months. The inventory concern is at the wholesale level, where rapid inventory growth appears to be unsupported by current sales.

Although current estimates of industrial production show a modest increase in May, the employment report for May suggests that some weakening in industrial activity may materialize. If so, a slight dip in capacity utilization will be greeted by favorable response in the financial markets.

Prices - The residual effects from rising oil prices earlier in the year should still impact the CPI and PPI during May. Then, inflationary pressures should slow until rising energy prices once again develop in the fall. In addition, food price inflation may begin to become a factor late this year if the drought proves to be significant. For those reasons, the GNP deflator is now projected to show a slightly greater rate of increase over the next twelve months than had been forecasted. However, these upward adjustments on expected inflation are modest and probably remain below the upward adjustment that investors have placed on their inflationary anticipations.

Miscellaneous - The merchandise trade improvement in March was much greater than anticipated. A 23% increase in exports probably reflects more than a full month's number of export invoices. As a result, some reduction in export activity probably will be recorded in April. On the other hand, slight increases in oil imports along with seasonal increases in automobile imports should cause imports to rise. While the government will be reporting seasonally adjusted trade balances for the first time in more than two years for April, our estimates remain on a seasonally unadjusted basis. We will decide whether to convert to seasonal adjustment patterns next month.

The important sluggishness in the leading indicators developed in delivery delays. A drop in this index to 62 clearly was a signal that the near-term overheating of the economy was diminishing. As a result, inflationary pressures will not be as substantial as initially thought. This will lead to smaller inventory valuation adjustments than had been forecasted.

## Financial Markets

The slowing in economic growth should begin to be reflected in short-term interest rates next month. As a result, the commercial paper rate will begin to fall below the federal funds rate. However, this slowing is expected to persist for only a short period of time. By the end of summer, rising inflationary pressures once again will lead to higher credit market pressures. Further increases in the federal funds rate along with a possible discount rate increase should develop in the fall, possibly after the election. That further rate increase, while significantly increasing short-term interest rates, should begin to slow economic growth further. Thus, long-term interest rates are expected to peak about the end of this year.

Equity Markets - As mentioned above, our New York Composite Index is expected to show a summer rally. While our timing suggests that the rally will come later in the summer, anticipations of improved profitability and a near-term peaking of government bond rates could bring that rally forward. However, our analysis strongly suggests that this will be only a temporary rally followed by further weakness in equity values until the depths of recessionary possibilities for 1989 have been determined.

Although cyclical stocks have performed well, the potential for cyclical downturn in 1989 should place them in disfavor. Current consumer weakness certainly does not bode well for consumer stocks either. Moreover, rising agricultural prices will put cost pressures upon food processing and food distribution industries. However, export-oriented industries and some of the import-impacted industrial materials and capital goods industries will perform favorably despite cyclical weakness. Early in 1989, interest-sensitive issues also should begin to receive favor.

No serious plunge in stock market values is anticipated, but the summer rally probably would be a good time to realign portfolios.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 103827 | 103827 | 122.4 | 122.4 | 114129 | 114129 | 5.8 | 5.8 | 176.4 | 176.4 |
| February | 104365 | 104365 | 123.7 | 123.7 | 114409 | 114409 | 5.7 | 5.7 | 176.5 | 176.5 |
| March | 104661 | 104661 | 123.1 | 123.1 | 114103 | 114103 | 5.6 | 5.6 | 176.8 | 176.8 |
| April | 104835 | 104835 | 123.7 | 124.3 | 114713 | 114713 | 5.4 | 5.4 | 177.6 | 177.6 |
| May | 105151 | 105050* | 124.0 | 124.5* | 114635 | 114905* | 5.4 | 5.4* | 177.5 | 177.8* |
| June | 105467 | 105286 | 124.3 | 124.7 | 114812 | 115200 | 5.4 | 5.3 | 177.8 | 178.3 |
| July | 105623 | 105503 | 124.6 | 124.9 | 115093 | 115440 | 5.4 | 5.2 | 178.4 | 178.8 |
| August | 105807 | 105704 | 125.0 | 125.1 | 115405 | 115587 | 5.2 | 5.2 | 179.1 | 179.3 |
| September | 105991 | 105863 | 125.4 | 125.3 | 115717 | 115789 | 5.2 | 5.2 | 179.8 | 179.9 |
| October | 106117 | 106009 | 125.4 | 125.4 | 115843 | 115957 | 5.2 | 5.2 | 180.2 | 180.5 |
| November | 106266 | 106178 | 125.2 | 125.6 | 115926 | 116165 | 5.1 | 5.1 | 180.6 | 181.0 |
| December | 106415 | 106341 | 125.3 | 125.7 | 115988 | 116345 | 5.2 | 5.1 | 180.9 | 181.4 |
| January 1989 | 106563 | 106478 | 125.6 | 125.8 | 116124 | 116487 | 5.1 | 5.2 | 181.5 | 182.0 |
| February | 106528 | 106529 | 125.5 | 125.8 | 116325 | 116535 | 5.1 | 5.3 | 182.2 | 182.5 |
| March | 106757 | 106653 | 125.5 | 126.0 | 116528 | 116735 | 5.1 | 5.2 | 182.9 | 183.0 |
| April | 106928 | 106789 | 125.7 | 126.1 | 116645 | 116797 | 5.2 | 5.3 | 183.5 | 183.6 |
| May | 107038 | 106973 | 125.9 | 126.2 | 116767 | 117029 | 5.2 | 5.2 | 184.0 | 184.1 |
| June | 107149 | 107108 | 126.0 | 126.4 | 116890 | 117207 | 5.3 | 5.3 | 184.5 | 184.7 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 3.873 | 3.873 | 2.293 | 2.293 | 153.7 | 153.7 | 3.297 | 3.297 | 3.143 | 3.143 |
| February | 3.895 | 3.896 | 2.307 | 2.309 | 154.5 | 151.1 | 3.323 | 3.324 | 3.168 | 3.173 |
| March | 3.924 | 3.939 | 2.319 | 2.324 | 157.1 | 158.5 | 3.341 | 3.356 | 3.190 | 3.198 |
| April | 3.940 | 3.944 | 2.334 | 2.332 | 139.6 | 127.3 | 3.346 | 3.324 | 3.206 | 3.197 |
| May | 3.958 | 3.961* | 2.342 | 2.343* | 133.5 | 146.4* | 3.352 | 3.353* | 3.219 | 3.207* |
| June | 3.976 | 3.980 | 2.350 | 2.355 | 127.3 | 146.3 | 3.359 | 3.367 | 3.232 | 3.221 |
| July | 3.993 | 3.997 | 2.364 | 2.366 | 125.4 | 136.5 | 3.379 | 3.379 | 3.254 | 3.243 |
| August | 4.009 | 4.016 | 2.379 | 2.378 | 123.1 | 122.6 | 3.398 | 3.393 | 3.275 | 3.270 |
| September | 4.025 | 4.035 | 2.395 | 2.391 | 122.9 | 123.5 | 3.418 | 3.407 | 3.295 | 3.284 |
| October | 4.043 | 4.052 | 2.403 | 2.403 | 125.3 | 132.7 | 3.429 | 3.421 | 3.304 | 3.288 |
| November | 4.061 | 4.071 | 2.406 | 2.416 | 128.3 | 126.9 | 3.442 | 3.436 | 3.314 | 3.309 |
| December | 4.079 | 4.087 | 2.410 | 2.425 | 131.4 | 120.0 | 3.455 | 3.448 | 3.324 | 3.328 |
| January 1989 | 4.098 | 4.100 | 2.425 | 2.437 | 146.7 | 138.3 | 3.497 | 3.480 | 3.350 | 3.342 |
| February | 4.120 | 4.120 | 2.440 | 2.445 | 147.6 | 149.3 | 3.514 | 3.505 | 3.366 | 3.356 |
| March | 4.142 | 4.138 | 2.454 | 2.457 | 148.4 | 149.5 | 3.529 | 3.520 | 3.381 | 3.371 |
| April | 4.159 | 4.158 | 2.464 | 2.469 | 140.6 | 150.7 | 3.541 | 3.539 | 3.400 | 3.388 |
| May | 4.175 | 4.172 | 2.475 | 2.477 | 134.7 | 140.3 | 3.553 | 3.550 | 3.418 | 3.410 |
| June | 4.192 | 4.191 | 2.485 | 2.491 | 129.4 | 137.2 | 3.564 | 3.565 | 3.435 | 3.428 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 3045.3 | 3045.3 | 419.7 | 419.7 | 992.0 | 992.0 | 1633.6 | 1633.6 | 2513.5 | 2513.5 |
| February | 3069.5 | 3074.1 | 428.9 | 428.9 | 990.0 | 995.2 | 1650.6 | 1650.0 | 2532.9 | 2536.7 |
| March | 3091.3 | 3098.8 | 428.6 | 431.9 | 999.8 | 1009.3 | 1662.8 | 1657.7 | 2538.1 | 2544.8 |
| April | 3104.7 | 3097.8 | 425.4 | 427.6 | 1006.4 | 1000.9 | 1672.9 | 1669.3 | 2536.5 | 2528.2 |
| May | 3118.6 | 3106.8* | 426.3 | 421.7* | 1008.6 | 1007.6* | 1683.7 | 1677.5* | 2533.4 | 2523.8* |
| June | 3132.5 | 3120.3 | 427.2 | 420.5 | 1010.9 | 1011.5 | 1694.4 | 1688.3 | 2530.3 | 2522.1 |
| July | 3152.0 | 3141.6 | 430.6 | 423.8 | 1016.6 | 1017.6 | 1704.8 | 1700.2 | 2539.9 | 2528.8 |
| August | 3177.2 | 3169.1 | 439.4 | 436.5 | 1022.3 | 1022.0 | 1715.5 | 1710.6 | 2558.1 | 2543.6 |
| September | 3192.1 | 3181.7 | 440.4 | 434.6 | 1025.6 | 1026.2 | 1726.1 | 1720.9 | 2566.0 | 2546.9 |
| October | 3190.9 | 3186.0 | 423.6 | 423.8 | 1030.5 | 1030.9 | 1736.8 | 1731.3 | 2552.7 | 2539.5 |
| November | 3211.6 | 3206.2 | 427.3 | 428.2 | 1036.6 | 1035.5 | 1747.7 | 1742.5 | 2552.9 | 2546.7 |
| December | 3231.8 | 3224.5 | 431.0 | 431.4 | 1042.3 | 1039.9 | 1758.5 | 1753.2 | 2554.8 | 2549.7 |
| January 1989 | 3247.4 | 3237.6 | 431.9 | 429.6 | 1045.6 | 1044.2 | 1769.9 | 1763.8 | 2559.0 | 2549.4 |
| February | 3263.0 | 3251.1 | 432.7 | 427.3 | 1049.3 | 1048.6 | 1781.0 | 1775.2 | 2565.3 | 2550.6 |
| March | 3277.2 | 3265.3 | 432.0 | 426.3 | 1053.0 | 1052.9 | 1792.2 | 1786.1 | 2570.4 | 2550.9 |
| April | 3295.3 | 3282.5 | 433.0 | 428.7 | 1058.5 | 1057.3 | 1803.8 | 1796.5 | 2572.4 | 2554.3 |
| May | 3313.1 | 3303.3 | 434.1 | 432.6 | 1063.1 | 1062.9 | 1815.9 | 1807.8 | 2572.3 | 2559.7 |
| June | 3329.4 | 3320.8 | 433.7 | 434.2 | 1067.7 | 1068.3 | 1828.0 | 1818.3 | 2571.0 | 2562.2 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 128.77 | 128.77 | 19.75 | 19.75 | 10.4 | 10.4 | 80.08 | 80.08 | 28.94 | 28.94 |
| February | 130.12 | 130.12 | 20.19 | 20.19 | 11.0 | 11.0 | 80.41 | 80.41 | 29.52 | 29.52 |
| March | 132.40 | 132.40 | 20.54 | 20.54 | 10.7 | 10.7 | 81.83 | 81.83 | 30.04 | 30.04 |
| April | 131.58 | 131.58 | 20.53 | 20.53 | 10.5 | 10.5 | 81.33 | 81.33 | 29.72 | 29.72 |
| May | 132.01 | 131.22* | 20.79 | 20.50* | 10.0 | 10.0* | 81.96 | 81.66* | 29.26 | 29.06* |
| June | 132.59 | 131.40 | 21.01 | 20.58 | 10.1 | 9.8 | 82.24 | 81.98 | 29.34 | 28.84 |
| July | 133.64 | 132.27 | 21.23 | 20.65 | 10.2 | 10.0 | 82.89 | 82.47 | 29.52 | 29.15 |
| August | 134.91 | 134.13 | 21.20 | 20.61 | 10.5 | 10.7 | 83.35 | 82.83 | 30.36 | 30.69 |
| September | 135.53 | 134.24 | 20.75 | 20.64 | 10.8 | 10.5 | 83.62 | 83.17 | 31.16 | 30.43 |
| October | 134.04 | 133.35 | 20.64 | 20.56 | 9.9 | 9.8 | 84.02 | 83.55 | 29.38 | 29.24 |
| November | 134.88 | 134.24 | 20.80 | 20.69 | 10.0 | 10.0 | 84.52 | 83.92 | 29.56 | 29.63 |
| December | 135.78 | 134.98 | 21.07 | 20.85 | 10.0 | 10.1 | 84.98 | 84.28 | 29.73 | 29.85 |
| January 1989 | 136.16 | 135.12 | 20.95 | 20.73 | 10.1 | 10.0 | 85.25 | 84.63 | 29.96 | 29.76 |
| February | 136.56 | 135.20 | 20.81 | 20.68 | 10.2 | 9.8 | 85.56 | 84.98 | 30.19 | 29.54 |
| March | 136.78 | 135.43 | 20.62 | 20.69 | 10.2 | 9.7 | 85.86 | 85.33 | 30.30 | 29.41 |
| April | 137.05 | 136.07 | 20.76 | 20.76 | 10.0 | 9.8 | 86.31 | 85.69 | 29.98 | 29.62 |
| May | 137.64 | 136.98 | 20.84 | 20.80 | 10.0 | 10.0 | 86.68 | 86.14 | 30.12 | 30.04 |
| June | 137.38 | 137.60 | 20.89 | 20.85 | 9.6 | 10.0 | 87.06 | 86.58 | 29.43 | 30.17 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 1.382 | 1.382 | 1.016 | 1.016 | 1.257 | 1.257 | 394.5 | 394.5 | 345.2 | 345.2 |
| February | 1.519 | 1.519 | 1.102 | 1.102 | 1.422 | 1.422 | 396.0 | 396.0 | 345.2 | 345.2 |
| March | 1.554 | 1.554 | 1.176 | 1.176 | 1.476 | 1.476 | 401.8 | 401.2 | 349.5 | 349.0 |
| April | 1.561 | 1.561 | 1.095 | 1.095 | 1.416 | 1.416 | 402.7 | 401.8 | 349.0 | 350.8 |
| May | 1.568 | 1.511* | 1.128 | 1.076* | 1.426 | 1.405* | 404.1 | 403.8* | 349.3 | 351.4* |
| June | 1.553 | 1.525 | 1.139 | 1.083 | 1.407 | 1.426 | 406.3 | 403.7 | 349.9 | 350.4 |
| July | 1.521 | 1.491 | 1.108 | 1.065 | 1.386 | 1.385 | 408.5 | 403.3 | 350.9 | 349.2 |
| August | 1.496 | 1.502 | 1.102 | 1.069 | 1.372 | 1.393 | 410.5 | 402.2 | 351.8 | 347.3 |
| September | 1.492 | 1.511 | 1.095 | 1.082 | 1.389 | 1.416 | 412.3 | 402.4 | 352.1 | 346.9 |
| October | 1.496 | 1.518 | 1.086 | 1.075 | 1.406 | 1.402 | 411.1 | 403.3 | 350.2 | 346.8 |
| November | 1.503 | 1.502 | 1.083 | 1.069 | 1.389 | 1.386 | 409.9 | 404.7 | 348.3 | 347.1 |
| December | 1.502 | 1.493 | 1.079 | 1.071 | 1.401 | 1.390 | 408.9 | 406.1 | 346.2 | 347.4 |
| January 1989 | 1.478 | 1.479 | 1.067 | 1.063 | 1.375 | 1.373 | 410.1 | 406.6 | 346.1 | 346.6 |
| February | 1.465 | 1.474 | 1.053 | 1.046 | 1.364 | 1.365 | 411.2 | 406.4 | 345.8 | 345.3 |
| March | 1.452 | 1.483 | 1.050 | 1.050 | 1.348 | 1.372 | 412.2 | 407.1 | 345.5 | 345.0 |
| April | 1.448 | 1.515 | 1.036 | 1.053 | 1.326 | 1.396 | 411.8 | 407.7 | 344.0 | 344.6 |
| May | 1.446 | 1.499 | 1.029 | 1.056 | 1.329 | 1.391 | 411.8 | 411.0 | 342.6 | 346.5 |
| June | 1.442 | 1.494 | 1.021 | 1.045 | 1.322 | 1.395 | 412.1 | 412.7 | 341.4 | 347.1 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 127.2 | 127.2 | 75.3 | 75.3 | 192.0 | 192.0 |
| February | 128.0 | 128.0 | 78.1 | 77.9 | 189.9 | 190.1 |
| March | 128.1 | 125.1 | 82.3 | 81.8 | 191.4 | 194.2 |
| April | 128.3 | 130.6 | 80.6 | 79.3 | 193.8 | 191.9 |
| May | 128.6 | 129.8* | 80.0 | 79.7* | 195.5 | 194.3* |
| June | 128.8 | 130.3 | 80.3 | 80.0 | 197.2 | 193.4 |
| July | 128.5 | 129.7 | 80.5 | 80.3 | 199.5 | 193.3 |
| August | 128.9 | 129.3 | 80.9 | 81.6 | 200.7 | 191.3 |
| September | 129.2 | 129.8 | 81.3 | 81.3 | 201.8 | 191.3 |
| October | 129.0 | 130.1 | 81.6 | 81.5 | 200.5 | 191.7 |
| November | 128.8 | 130.6 | 81.9 | 81.8 | 199.2 | 192.3 |
| December | 128.9 | 131.1 | 82.1 | 82.2 | 197.9 | 192.8 |
| January 1989 | 129.0 | 131.4 | 82.5 | 82.0 | 198.6 | 193.2 |
| February | 129.1 | 131.2 | 82.9 | 82.5 | 199.2 | 192.7 |
| March | 129.2 | 131.0 | 83.3 | 82.9 | 199.7 | 193.2 |
| April | 129.4 | 131.2 | 83.5 | 83.4 | 198.9 | 193.1 |
| May | 129.7 | 131.5 | 83.8 | 83.8 | 198.3 | 195.7 |
| June | 130.0 | 131.8 | 84.1 | 83.6 | 198.0 | 197.3 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 336.8 | 336.8 | 114.20 | 114.20 | 34.79 | 34.79 | 30.65 | 30.65 |
| February | 338.4 | 338.6 | 114.26 | 114.32 | 33.75 | 33.76 | 30.71 | 30.72 |
| March | 339.4 | 339.5 | 115.31 | 115.25 | 32.46 | 32.48 | 31.69 | 31.71 |
| April | 340.9 | 341.0 | 116.28 | 116.44 | 32.90 | 33.11 | 30.90 | 30.93 |
| May | 342.8 | 342.6* | 117.43 | 116.93* | 33.55 | 33.72* | 31.26 | 31.15* |
| June | 345.0 | 344.0 | 114.39 | 114.92 | 32.16 | 32.76 | 31.75 | 31.28 |
| July | 345.9 | 345.3 | 114.62 | 115.26 | 32.49 | 32.53 | 32.39 | 31.56 |
| August | 346.8 | 346.8 | 116.21 | 117.65 | 33.31 | 32.95 | 32.71 | 31.89 |
| September | 347.7 | 348.1 | 115.05 | 117.02 | 32.75 | 33.16 | 33.04 | 32.36 |
| October | 349.8 | 349.6 | 114.85 | 115.08 | 32.93 | 33.28 | 32.83 | 32.49 |
| November | 351.9 | 351.1 | 114.37 | 115.46 | 32.86 | 33.56 | 32.95 | 32.96 |
| December | 354.0 | 352.6 | 116.27 | 115.72 | 33.14 | 33.27 | 32.90 | 33.12 |
| January 1989 | 355.8 | 354.2 | 116.63 | 115.29 | 33.20 | 33.15 | 33.14 | 33.29 |
| February | 357.4 | 355.9 | 115.08 | 114.26 | 32.86 | 32.65 | 33.22 | 33.52 |
| March | 359.0 | 357.2 | 114.82 | 115.08 | 32.53 | 32.93 | 32.85 | 33.68 |
| April | 360.8 | 359.0 | 115.06 | 115.03 | 33.16 | 32.85 | 33.14 | 33.15 |
| May | 362.9 | 360.7 | 114.43 | 114.82 | 31.84 | 32.73 | 32.27 | 33.08 |
| June | 365.0 | 362.8 | 115.95 | 113.95 | 32.14 | 32.70 | 32.06 | 32.85 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 715.0 | 715.0 | 8.43 | 8.43 | 134.4 | 134.4 | 82.5 | 82.5 |
| February | 717.9 | 717.9 | 8.50 | 8.50 | 134.4 | 134.4 | 82.4 | 82.4 |
| March | 720.0 | 720.0 | 9.52 | 9.50 | 134.7 | 134.7 | 82.4 | 82.4 |
| April | 723.5 | 722.9* | 8.58 | 8.47 | 135.6 | 135.6 | 82.7 | 82.7 |
| May | 726.4 | 726.8 | 8.50 | 8.78* | 135.9 | 136.1* | 82.8 | 82.9* |
| June | 729.4 | 729.8 | 8.58 | 8.93 | 136.2 | 136.4 | 82.8 | 83.0 |
| July | 732.3 | 732.7 | 8.46 | 8.76 | 136.5 | 136.6 | 82.9 | 83.0 |
| August | 734.5 | 736.1 | 8.54 | 8.84 | 136.8 | 136.9 | 82.9 | 83.0 |
| September | 736.7 | 738.9 | 8.63 | 8.92 | 137.1 | 137.1 | 83.0 | 82.9 |
| October | 740.8 | 742.1 | 8.60 | 8.85 | 137.2 | 137.2 | 82.9 | 82.8 |
| November | 745.8 | 745.3 | 8.77 | 9.06 | 137.0 | 137.4 | 82.7 | 82.8 |
| December | 750.6 | 749.1 | 8.95 | 9.01 | 137.0 | 137.3 | 82.6 | 82.5 |
| January 1989 | 753.4 | 752.9 | 9.00 | 9.06 | 136.9 | 137.5 | 82.4 | 82.5 |
| February | 756.4 | 756.5 | 9.01 | 9.00 | 137.0 | 137.2 | 82.3 | 82.2 |
| March | 759.3 | 759.3 | 9.00 | 8.96 | 137.0 | 137.4 | 82.2 | 82.2 |
| April | 762.9 | 763.1 | 9.13 | 9.05 | 135.5 | 137.2 | 81.2 | 81.9 |
| May | 766.3 | 766.7 | 9.25 | 9.16 | 135.0 | 137.0 | 80.8 | 81.6 |
| June | 769.7 | 770.1 | 9.38 | 9.27 | 134.5 | 137.2 | 80.3 | 81.6 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 115.9 | 115.9 | 106.1 | 106.1 | 104.3 | 104.3 | 119.1 | 119.1 |
| February | 116.1 | 116.1 | 105.9 | 105.9 | 104.4 | 104.4 | 119.4 | 119.3 |
| March | 116.7 | 116.7 | 106.5 | 106.5 | 104.7 | 104.7 | 119.6 | 119.2 |
| April | 117.2 | 117.2 | 107.0 | 107.0 | 105.6 | 105.6 | 120.1 | 119.8 |
| May | 117.8 | 117.8* | 107.5 | 107.5* | 105.9 | 105.9* | 120.7 | 120.4 |
| June | 118.3 | 118.3 | 107.9 | 107.8 | 105.9 | 106.2 | 121.2 | 121.0 |
| July | 118.7 | 118.7 | 108.2 | 108.0 | 106.8 | 106.8 | 121.5 | 121.5 |
| August | 119.1 | 119.0 | 108.4 | 108.0 | 107.5 | 107.0 | 121.8 | 121.9 |
| September | 119.5 | 119.3 | 108.6 | 107.9 | 106.4 | 105.6 | 122.1 | 122.2 |
| October | 120.0 | 119.8 | 108.9 | 108.5 | 107.8 | 107.4 | 122.5 | 122.7 |
| November | 120.5 | 120.2 | 109.3 | 108.8 | 108.0 | 107.8 | 122.8 | 123.1 |
| December | 121.0 | 120.8 | 109.8 | 109.5 | 108.1 | 109.1 | 123.2 | 123.6 |
| January 1989 | 121.4 | 121.3 | 110.2 | 110.0 | 108.6 | 109.8 | 123.7 | 124.1 |
| February | 121.8 | 121.8 | 110.5 | 110.4 | 109.1 | 110.2 | 124.1 | 124.6 |
| March | 122.2 | 122.2 | 110.8 | 110.7 | 109.5 | 110.5 | 124.5 | 125.1 |
| April | 122.8 | 122.7 | 111.4 | 111.1 | 110.1 | 111.1 | 125.0 | 125.6 |
| May | 123.4 | 123.3 | 112.0 | 111.6 | 110.8 | 111.5 | 125.5 | 126.1 |
| June | 124.0 | 123.8 | 112.5 | 112.2 | 111.5 | 112.1 | 125.9 | 126.6 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 121.1 | 121.1 | 107.4 | 107.4 | 113.4 | 113.4 | 130.7 | 130.7 | 114.3 | 114.3 |
| February | 121.2 | 121.2 | 107.4 | 107.4 | 113.3 | 113.2 | 131.1 | 131.1 | 114.7 | 114.7 |
| March | 121.8 | 121.8 | 107.5 | 107.6 | 114.2 | 114.3 | 131.6 | 131.6 | 115.0 | 115.0 |
| April | 122.4 | 122.5 | 107.9 | 107.6 | 115.2 | 115.4 | 132.2 | 132.1 | 115.4 | 114.5 |
| May | 123.1 | 123.1* | 108.1 | 107.9* | 115.7 | 116.1* | 132.8 | 132.6* | 115.7 | 114.9* |
| June | 123.8 | 123.7 | 108.3 | 108.2 | 116.1 | 116.8 | 133.4 | 133.2 | 116.1 | 115.2 |
| July | 124.1 | 124.2 | 108.8 | 108.5 | 116.3 | 117.3 | 133.9 | 133.8 | 116.4 | 115.5 |
| August | 124.2 | 124.6 | 109.2 | 108.9 | 116.5 | 117.6 | 134.4 | 134.3 | 116.7 | 115.8 |
| September | 124.4 | 124.9 | 109.0 | 108.9 | 116.6 | 117.8 | 135.0 | 134.8 | 117.1 | 116.0 |
| October | 125.0 | 125.5 | 109.3 | 109.3 | 117.3 | 118.2 | 135.5 | 135.3 | 117.4 | 116.3 |
| November | 125.8 | 125.9 | 109.2 | 109.2 | 118.1 | 118.7 | 136.0 | 135.9 | 117.7 | 116.6 |
| December | 126.5 | 126.5 | 109.4 | 109.4 | 118.8 | 119.4 | 136.6 | 136.5 | 118.1 | 116.9 |
| January 1989 | 126.9 | 127.0 | 109.6 | 109.6 | 119.2 | 119.9 | 137.2 | 137.1 | 118.5 | 117.3 |
| February | 127.2 | 127.5 | 109.9 | 109.9 | 119.5 | 120.3 | 137.7 | 137.6 | 118.9 | 117.7 |
| March | 127.5 | 128.0 | 110.2 | 110.2 | 119.9 | 120.8 | 138.3 | 138.2 | 119.3 | 118.0 |
| April | 128.1 | 128.5 | 110.4 | 110.4 | 120.6 | 121.3 | 138.9 | 138.8 | 119.7 | 118.3 |
| May | 128.8 | 129.1 | 110.6 | 110.6 | 121.0 | 121.8 | 139.5 | 139.5 | 120.1 | 118.6 |
| June | 129.5 | 129.6 | 110.9 | 110.9 | 121.4 | 122.4 | 140.1 | 140.1 | 120.5 | 118.9 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | -12.44 | -12.44 | 188.9 | 188.7 | 4638 | 4638 | 3894 | 3894 | -17.8 | -17.8 |
| February | -13.82 | -13.82 | 191.8 | 191.5 | 4660 | 4665 | 3903 | 3910 | -16.5 | -16.4 |
| March | -13.14 | -9.75 | 193.3 | 191.9 | 4685 | 4703 | 3917 | 3945 | -16.4 | -15.1 |
| April | -13.06 | -12.00* | 194.5 | 192.2 | 4710 | 4725 | 3922 | 3944 | -19.6 | -16.6 |
| May | -12.77 | -12.29 | 194.2 | 192.4* | 4740 | 4759 | 3927 | 3953 | -22.3 | -16.9 |
| June | -12.49 | -12.43 | 194.5 | 192.3 | 4769 | 4784 | 3935 | 3954 | -22.6 | -15.5 |
| July | -14.23 | -12.96 | 194.8 | 192.8 | 4793 | 4811 | 3945 | 3960 | -23.4 | -12.8 |
| August | -14.02 | -11.85 | 194.5 | 193.3 | 4814 | 4848 | 3952 | 3977 | -22.8 | -10.5 |
| September | -12.82 | -11.74 | 194.1 | 193.5 | 4835 | 4863 | 3960 | 3980 | -22.1 | -9.2 |
| October | -13.34 | -12.53 | 194.6 | 193.1 | 4852 | 4881 | 3961 | 3978 | -21.4 | -11.6 |
| November | -12.95 | -12.05 | 195.3 | 192.7 | 4870 | 4917 | 3966 | 3994 | -20.1 | -17.4 |
| December | -12.56 | -11.67 | 195.6 | 191.8 | 4887 | 4950 | 3967 | 4005 | -18.8 | -20.3 |
| January 1989 | -12.65 | -11.43 | 195.4 | 191.4 | 4909 | 4970 | 3968 | 4005 | -18.5 | -17.8 |
| February | -12.32 | -11.18 | 195.3 | 191.6 | 4936 | 4989 | 3977 | 4004 | -19.0 | -17.1 |
| March | -11.97 | -11.02 | 195.7 | 192.3 | 4963 | 5006 | 3986 | 4002 | -18.4 | -16.5 |
| April | -12.17 | -11.65 | 195.0 | 192.6 | 4982 | 5030 | 3986 | 4005 | -23.9 | -18.3 |
| May | -11.98 | -11.27 | 194.6 | 192.3 | 5000 | 5058 | 3984 | 4011 | -29.6 | -19.9 |
| June | -11.79 | -11.05 | 194.2 | 192.5 | 5018 | 5076 | 3986 | 4009 | -28.7 | -21.6 |

| | Trade Index | | Adjusted Profits | | 30-Year Government Bonds | | New York Composite | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore | C.E. | Fore. | C.E. |
| January 1988 | 89.18 | 89.18 | 168.3 | 169.9 | 8.83 | 8.83 | 140.55 | 140.55 |
| February | 91.09 | 91.09 | 171.5 | 175.8 | 8.43 | 8.43 | 145.13 | 145.13 |
| March | 89.73 | 89.73 | 172.6 | 181.1 | 8.63 | 8.63 | 149.88 | 149.88 |
| April | 88.95 | 88.95 | 169.3 | 176.7 | 8.95 | 8.95 | 148.46 | 148.46 |
| May | 89.43 | 90.13 | 168.0 | 177.8 | 9.23 | 9.23 | 147.79 | 145.85* |
| June | 91.02 | 90.85* | 168.8 | 178.3* | 9.16 | 9.34* | 149.76 | 144.54 |
| July | 90.14 | 90.42 | 168.3 | 179.5 | 9.37 | 9.22 | 152.45 | 147.41 |
| August | 89.51 | 89.76 | 168.0 | 181.3 | 9.49 | 9.07 | 155.93 | 151.35 |
| September | 88.25 | 89.14 | 168.3 | 183.4 | 9.43 | 9.15 | 154.40 | 151.76 |
| October | 87.43 | 88.26 | 167.8 | 183.2 | 9.65 | 9.28 | 148.26 | 149.47 |
| November | 86.84 | 86.93 | 167.5 | 181.6 | 9.86 | 9.62 | 147.51 | 142.93 |
| December | 86.13 | 86.56 | 167.2 | 181.2 | 10.04 | 10.07 | 146.78 | 136.24 |
| January 1989 | 86.42 | 85.29 | 169.4 | 178.4 | 10.02 | 10.15 | 144.23 | 133.08 |
| February | 85.36 | 85.04 | 169.8 | 178.8 | 9.82 | 10.01 | 146.85 | 132.86 |
| March | 84.28 | 84.63 | 167.8 | 180.3 | 9.76 | 9.82 | 142.78 | 136.57 |
| April | 84.39 | 84.61 | 163.4 | 176.5 | 9.54 | 9.56 | 136.43 | 137.33 |
| May | 85.53 | 84.93 | 159.7 | 173.8 | 9.47 | 9.53 | 139.75 | 135.65 |
| June | 84.48 | 85.28 | 156.0 | 171.4 | 9.45 | 9.36 | 140.58 | 136.25 |

Fore. = May Forecast
C.E. = Current Expectations

# FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 271.3 | 271.3 | 758.9 | 758.9 | 2924.9 | 2924.9 | 6.83 | 6.83 | 6.25 | 6.25 |
| February | 272.0 | 272.0 | 759.6 | 759.6 | 2946.1 | 2946.1 | 6.58 | 6.58 | 5.96 | 5.96 |
| March | 272.5 | 272.5 | 763.1 | 763.1 | 2967.7 | 2967.7 | 6.58 | 6.58 | 5.91 | 5.91 |
| April | 275.2 | 275.2 | 770.2 | 770.2 | 2992.3 | 2992.3 | 6.87 | 6.87 | 6.21 | 6.21 |
| May | 278.0 | 278.0* | 771.3 | 772.5* | 3012.6 | 3006.4* | 6.98 | 7.05* | 6.28 | 6.39* |
| June | 280.8 | 280.5 | 772.5 | 776.4 | 3032.8 | 3021.6 | 7.09 | 7.32 | 6.35 | 6.56 |
| July | 282.3 | 282.1 | 778.9 | 780.0 | 3050.6 | 3037.6 | 7.10 | 7.55 | 6.39 | 6.89 |
| August | 283.6 | 283.6 | 785.0 | 784.2 | 3069.7 | 3059.0 | 7.05 | 7.63 | 6.35 | 6.95 |
| September | 285.0 | 285.2 | 791.2 | 789.4 | 3088.8 | 3084.3 | 7.11 | 7.65 | 6.40 | 6.98 |
| October | 286.8 | 286.9 | 793.7 | 794.4 | 3100.2 | 3103.8 | 7.20 | 7.62 | 6.56 | 6.92 |
| November | 288.2 | 288.4 | 794.3 | 798.9 | 3111.8 | 3121.5 | 7.43 | 7.93 | 6.75 | 7.14 |
| December | 289.6 | 290.0 | 795.1 | 801.9 | 3123.4 | 3138.2 | 7.45 | 8.02 | 6.79 | 7.20 |
| January 1989 | 291.3 | 291.4 | 803.6 | 804.8 | 3142.6 | 3154.5 | 7.26 | 8.07 | 6.53 | 7.06 |
| February | 292.6 | 292.9 | 811.6 | 808.4 | 3159.7 | 3168.6 | 7.15 | 8.05 | 6.45 | 7.01 |
| March | 294.0 | 294.3 | 819.5 | 812.3 | 3176.3 | 3183.9 | 7.08 | 8.13 | 6.41 | 7.12 |
| April | 295.7 | 295.8 | 824.6 | 816.9 | 3191.5 | 3206.9 | 7.05 | 8.12 | 6.25 | 7.02 |
| May | 296.9 | 297.3 | 829.2 | 822.9 | 3209.7 | 3220.5 | 6.94 | 8.10 | 6.19 | 6.94 |
| June | 298.1 | 298.6 | 833.9 | 828.0 | 3227.8 | 3240.4 | 6.83 | 7.78 | 6.13 | 6.56 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 9.88 | 9.88 | 7.69 | 7.69 | 6.87 | 6.87 | 6.92 | 6.92 | 8.75 | 8.75 |
| February | 9.40 | 9.40 | 7.49 | 7.49 | 6.58 | 6.58 | 6.60 | 6.60 | 8.51 | 8.51 |
| March | 9.39 | 9.39 | 7.74 | 7.74 | 6.62 | 6.62 | 6.63 | 6.63 | 8.50 | 8.50 |
| April | 9.67 | 9.67 | 7.81 | 7.81 | 6.86 | 6.86 | 6.92 | 6.92 | 8.50 | 8.50 |
| May | 9.78 | 9.78* | 7.90 | 7.90* | 7.03 | 7.08* | 7.09 | 7.15* | 8.89 | 8.89 |
| June | 9.89 | 9.88 | 7.95 | 7.94 | 7.15 | 7.30 | 7.22 | 7.38 | 9.00 | 9.00 |
| July | 10.05 | 9.96 | 8.09 | 8.02 | 7.22 | 7.51 | 7.29 | 7.58 | 9.00 | 9.00 |
| August | 10.08 | 10.07 | 8.11 | 8.11 | 7.16 | 7.69 | 7.23 | 7.79 | 9.00 | 9.00 |
| September | 10.12 | 10.23 | 8.16 | 8.28 | 7.20 | 7.76 | 7.28 | 7.88 | 9.00 | 9.26 |
| October | 10.20 | 10.06 | 8.23 | 8.15 | 7.27 | 7.70 | 7.35 | 7.81 | 9.00 | 9.50 |
| November | 10.26 | 10.32 | 8.30 | 8.35 | 7.50 | 7.86 | 7.62 | 7.95 | 9.36 | 9.50 |
| December | 10.32 | 10.24 | 8.36 | 8.19 | 7.43 | 8.01 | 7.51 | 8.10 | 9.50 | 9.78 |
| January 1989 | 10.20 | 10.15 | 8.31 | 8.08 | 7.18 | 8.02 | 7.26 | 8.11 | 9.50 | 10.00 |
| February | 10.05 | 10.06 | 8.09 | 7.99 | 7.10 | 8.01 | 7.17 | 8.10 | 9.50 | 10.00 |
| March | 9.88 | 10.05 | 7.90 | 7.99 | 7.02 | 8.06 | 7.11 | 8.14 | 9.50 | 10.00 |
| April | 9.93 | 10.14 | 7.94 | 8.10 | 6.96 | 8.04 | 6.99 | 8.15 | 9.28 | 10.00 |
| May | 9.86 | 9.96 | 7.87 | 7.92 | 6.93 | 8.01 | 6.98 | 8.12 | 9.25 | 10.00 |
| June | 9.79 | 9.73 | 7.78 | 7.71 | 6.78 | 7.73 | 6.87 | 7.86 | 9.25 | 10.00 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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## MONTHLY PROJECTIONS
June 1988

Dr. Donald Ratajczak, Director
For Release: July 5, 1988

## DROUGHT, STRONG DOLLAR, AND FALLING OIL PRICES ARE MOSTLY OFFSETTING

Much of the current commentary has been focused on the impact that the drought may have upon the U.S. economy. Obviously, agricultural production will be significantly impacted unless timely rains arrive soon. Corn yields already appear to have fallen to 90 bushels per acre as compared to nearly 120 a year ago. Half the spring wheat crop has been lost and nearly a similar amount of the oat and barley crops. These grains are in short supply. However, the winter wheat crop was only marginally impacted by the dryness, which arrived late in its development. At this writing, the soybean crop still can be saved. However, the unusually dry conditions have reduced the total acreage sown to soybeans, and germination problems already have reduced the yield to less than 30 bushels per acre as compared to 33 bushels a year ago. Hot and dry weather in the next thirty days, which is during the critical pollination period, could dramatically reduce yields, particularly for corn.

Although carryover of grains from previous years is high, with corn averaging nearly 4 billion bushels and nearly a year's worth of wheat already in the bins, the sharp reductions in yields create prospects for zero carryover of coarse grains into next year. In addition, if the worst conditions develop for soybeans, current commitments may exceed available supply. Indeed, in the extreme, an embargo of soybean products could develop. Because of these potentialities, prices of grains have risen dramatically. Short-run price elasticities range from .12 for corn to .25 for wheat. Thus, significant reductions in production lead to dramatic increases in price. This price increase, in turn, has reduced the attractiveness of raising livestock. Thus, dairy cows and meat cows have been slaughtered at unusually high rates in recent weeks. The initial impact has been to drive down the price of meats. If feed costs remain high into the fall, as now appears likely, stress slaughtering could prevail until that time. Of course, this is the mechanism through which demand for coarse grains is reduced. With fewer animals, less feed stock will be required next year. However, per capita consumption of meat normally would not decline, unless a recession developed. Therefore, the imbalance between demand and supply next year will require significant increases in meat prices. We are currently estimating a potential 4% drop in per capita meat supplies, although rapidly rising poultry production next year could mitigate some of that plunge. This would lead to meat price increases in excess of 15% at the producers' level and would pressure grocery store prices upward by more than 8%.

In addition to the reduction in domestic consumption of feed grains, foreign sales of American grains also will fall. Some analysts have maintained that this would actually worsen trade deficits. However, price increases for the grains that will be shipped abroad will far exceed the reduction in volumes shipped. Indeed, we would currently anticipate that agricultural exports, which were only $29 billion in 1987, could rise to more than $37 billion in 1988.

Obviously, a reduction in agricultural productivity will tend to raise general prices. However, the price impact from such a supply shock would be limited in 1988, when stress selling of meat exists, and will only add approximately 0.5 percentage points to what otherwise would be inflationary pressures in 1989. (Of course, the Federal Reserve could completely ignore the pressures generated by such a supply shock. By failing to accommodate for the higher grain prices, some price increases for other products would need to be squeezed from the system. This would be accomplished by initially causing short-term interest rates to rise, creating a sluggishness in economic activity to be followed by unwanted inventories and price declines for some commodities. The Federal Reserve probably will tolerate some of the grain price increase rather than accept a temporary surge in short-term interest rate pressures.)

However, offsetting some of the increasing price pressures from agriculture will be reduced price pressures from energy materials. The OPEC nations apparently are unable to restrain oil production to levels consistent with their price targets. Therefore, prices are trending downward. When the heating season arrives in late summer, prices will begin firming. However, the quantity of oil currently available suggests that OPEC will have difficulty preserving their $18 target even in the early months of 1989. This reduction in inflationary pressures for energy materials will be as significant in restraining inflation as the drought has been in adding to it.

A third, unanticipated, economic event is the current dollar's rebound. Apparently, interest rate differentials had widened between the United States and other industrialized countries to more than 4 percentage points. As the dollar remained firm through the first half of this year, such an interest rate differential increased the attractiveness of dollar-based assets. This increased capital flow has led to some narrowing of interest rate differentials. It also has led to a substantial strengthening in the dollar's value. Ultimately, the dollar will reach a point where most investors agree that further improvement is not likely. At that point, investors will again consider the speed by which trade deficits are being reduced. It is our judgement that the trade deficits have shrunk more rapidly than anticipated early this year as a result of the working off of previously accumulated inventories of imported goods. When these inventories are depleted, strong economic growth in the United States once again will pull imports in. This should lead to no further improvement in the trade balances despite the improving terms of trade for agricultural commodities. Therefore, the dollar should once again weaken in value.

Nevertheless, this strengthening of the dollar probably will persist in creating higher dollar values than originally had been anticipated. Obviously, this has some favorable effects upon the inflationary environment. However, it also reduces the speed by which further improvements will develop in the merchandise trade balances. Indeed, no further significant improvements in trade conditions are anticipated until economic activity slows in the United States early next year.

In the meantime, strong capital flows have led to lower interest rates in the United States than otherwise would have developed. They also have accelerated the timing of the anticipated summer rally. However, our estimates suggest that equity values already have reached justifiable levels for anticipated interest rates and profitability. Moreover, as economic activity should slow its rate of growth perceptibly in 1989, some weakness in equity values probably soon will materialize.

### Quarterly Profile of GNP

| | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1989-2 | 1988 Annual | 1989 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 3.6 | 4.1 | 2.8 | 2.4 | 0.9 | 1.4 | 3.8 | 1.8 |
| Price: | 1.4 | 4.1 | 4.4 | 4.0 | 5.7 | 5.2 | 3.1 | 4.9 |
| Nominal: | 5.1 | 8.1 | 7.3 | 6.5 | 6.6 | 6.6 | 7.0 | 6.8 |

### Monthly Statistical Highlights for June 1988

Payroll employment +232,000; index of hours worked +0.2%; household employment +631,000; civilian unemployment rate 5.5%; personal income +0.5%; savings rate 4.4%; personal consumption +0.6%; retail sales +0.5%; auto sales 10.1 million units; housing starts +5.8%; housing permits -2.2%; construction expenditures -1.0%; business inventories +0.5%; orders for durable goods +1.6%; orders for nondefense capital goods +2.0%; industrial production +0.3%; CPI +0.4%; PPI +0.5%; consumption deflator +0.6%; leading indicators +0.2%; currency index +3.6%; equity index +3.9%; real GNP (AR) +2.8%; M1 (AR) 5.9%; M2 (AR) +5.2%.

### Monthly Statistical Highlights for July 1988

Payroll employment +262,000; index of hours worked +0.2%; household employment +289,000; civilian unemployment rate 5.4%; personal income +0.6%; savings rate 4.4%; personal consumption +0.5%; retail sales +0.4%; auto sales 10.2 million units; housing starts +1.3%; housing permits +0.1%; construction expenditures +0.1%; business inventories +0.5%; orders for durable goods +1.1%; orders for nondefense capital goods +3.6%; industrial production +0.3%; CPI +0.3%; PPI +0.2%; consumption deflator +0.3%; leading indicators +0.2%; currency index -0.9%; equity index +0.6%; real GNP (AR) +3.7%; M1 (AR) +6.9%; M2 (AR) +6.5%.

## Commentary

Employment - Initial unemployment claims once again have trended down slightly. In addition, the insured unemployment rate reached a low of 2% in late May. This suggests that economic activity probably is rebounding from its relatively sluggish level in May.

The May report showed a decline in hours worked, but this probably is merely offsetting distortions in April's workweek as a result of the shifting Easter holiday. Moreover, initial claims suggest that payroll gains are continuing well above 200,000 in this month. A surprising reduction in household employment may be the result of sampling problems. If so, an unusually large increase in both employment and labor force should be apparent in June. The June employment survey is unusually late in the month. This could lead to a resurgence of employment and work force for teenagers and young adults. As their unemployment rates are higher than the average, the unemployment rate could move upward. Nevertheless, the employment report is expected to show significant strength.

The one area of increasing concern is the acceleration of the hourly earnings index. The index is now 3.6% above previous year levels, the highest year-over-year performance in nearly four years. In the past two months, the index has increased at an annual rate of more than 6%. Some of this acceleration could be the result of statistical problems relating to the shifting Easter seasonals. Nevertheless, the evidence seems to suggest that the unemployment rate has now reached a point where wage inflation is beginning to intensify.

Personal Income and Outlays - Despite stronger gains in wages and salaries than anticipated, the May increase in personal income was less than expected. The primary retardant was reductions in farm subsidies. Given the current surge in farm prices, subsidies will fall even further in the next few months. As anticipated, the sharp increase in tax liabilities during April was the result of the disproportionate benefits provided from the tax reform package. Tax liabilities returned to their March levels in May. Next year, such a distortion in tax liabilities should not be apparent. However, the reduction in marginal tax rates will influence tax liabilities beginning in January of next year. This will lead to higher savings rates at that time than originally anticipated.

Expenditures on services grew less than anticipated in May as a result of cooler weather and the reduced demand for utilities. The hot weather in June and early July almost certainly will lead to a significant rebound in service expenditures. Also, the acceleration in some food prices will be more dramatic than the deceleration in energy prices in June. By July, however, falling energy prices will be more noteworthy. This should be apparent in the expenditures on nondurables in those months. Automobile sales are no longer benefiting from significant sales incentives, but activity remains reasonably robust. In addition, the data suggests that sales are being transferred from imported to domestic vehicles.

Construction - The plunge in single-family starts during May defies easy explanation. Housing permits did not show the same degree of weakness. Perhaps some financing problems temporarily restrained builder activity. Sales of single-family units only declined 0.3%. The 6.9 months of inventory available in May is slightly excessive but certainly not alarming. Therefore, some rebound should be anticipated in starts during June. At the same time, single-family permits probably will weaken as a result of concerns over rising mortgage rates. Mortgage rates have once again stabilized, however, suggesting that relatively stable housing starts should be anticipated through the remainder of this year. This sluggishness in housing starts will be apparent in residential construction expenditures. After a slight rebound in May, construction expenditures are expected to trend downward until early next year. Nonresidential construction also is expected to remain relatively unchanged over the next year while only slight gains are anticipated for public construction. This should lead to slight weakness in overall construction expenditures through the summer months, followed by modest gains early next year.

Business Activity - Although orders for durable goods fell in May, all the weakness was caused by a decline in volatile aircraft orders. Indeed, announcements of new orders suggest a surge in the aircraft category over the next two months. Excluding aircraft, orders were actually up 1% despite weakness in defense activity. Defense shipments have remained surprisingly low, suggesting that little real growth is currently developing in the defense expenditures category. However, some rebound in defense shipments is anticipated toward the end of this year. Our current estimates of nondefense capital shipments is slightly less than would be consistent with the capital expenditures surveys, which indicated an 11.7% increase in shipments adjusted for inflation. If the survey proves to be correct, then orders probably will be stronger than currently projected.

Industrial production was surprisingly strong in May as hours worked in manufacturing showed no gain. However, some reporting biases associated with the Easter holiday in April may have created confusion. Automobile production is now at 7.5 million and probably will increase slightly further. Strong gains in utility production also will heat the expansion of industrial production over the next month or so.

Manufacturers also are beginning to add to their inventories. The 0.6% increase in manufacturers' inventories during May is the largest gain in several years. This suggests that inventory investments during the second quarter will be very close to inventory accumulation in the first three months. Indeed, nonfarm inventories could have accelerated slightly. At this time, industrial material prices and delivery delays do not suggest that substantial amounts of speculative inventories are being accumulated. The strong orders are likely leading to a significant swelling of goods in process.

Prices - Although stress selling of animals began to press down livestock prices in June, meat prices did not fall at the supermarket. They will weaken in the weeks ahead, however. Also, energy prices had not yet shown the magnitude of weakness that currently is developing. Therefore, significant increases are still anticipated for the CPI and PPI in June. Following that time, however, several months of relatively modest inflationary pressures should materialize. Stronger automobile demand than anticipated in the absence of incentives probably will lead to higher effective prices for consumer durables than originally projected. Higher meat prices in 1989 will also be readily apparent in accelerating prices for consumer nondurables. Nevertheless, the energy component will act as a significant restraint upon price pressures from the drought. If wages continue to intensify, the moderate 0.3% monthly price gains for consumer services will gradually intensify as well. This is anticipated in our projections.

Miscellaneous - Trade balances have improved much more sharply than anticipated in our previous forecast. The major cause for this improvement has been a significant decline in import activity. However, export growth also has been unusually vigorous. The weakness in import activity appears to stem from previous accumulations of imported goods inventories. Now that the dollar no longer is declining, and is actually even rising slightly, these price hedged inventories are being worked down. This could lead to moderate trade balances for another month, but increased capital expenditures require an increase in imported capital goods. In 1989, a slowing in domestic demand once again is expected to generate some improvement in the trade balances. However, the current strength in the dollar will slow the speed by which exports will penetrate foreign markets.

Although the leading indicators fell slightly in May, most of the weakness was the result of rising initial claims and a weaker stock market. The stock market has rebounded in June while initial claims are trending better. Indeed, the leading indicators may show a larger rebound in June than currently contemplated.

Weakness in industrial commodity prices began to surface in the latter part of June. Coupled with the ongoing declines in prices for oil product, this will significantly reduce the IVA component over the next few months. Reduced IVA factors will help raise adjusted profits, as the tax liability will not rise as rapidly as operating profits. However, accelerating wage pressures followed by higher interest rates late in the year will prevent any significant further improvement in adjusted profitibility. As a result, the stock market will not be able to sustain further price improvements. This will be especially apparent after the dollar begins falling in value and the price of long-term bonds begin deteriorating. Both of these events are anticipated some time in July.

## Financial Markets

Our analysis suggests that corporate outlays and corporate cash flow both are increasing at relatively comparable rates at the present time. The household sector showed a rebound in savings following the tax payments in April but are not expected to significantly alter their net savings behavior during the summer. However, improvement in household savings in 1989 may be a factor leading to falling interest rates at that time.

Government borrowings are expected to remain relatively flat as stronger nominal revenue gains will provide higher receipts even as rising interest rates will increase outlays. The budget deficit is expected to remain near $150 billion over the next half dozen quarters.

Thus, as usually has been the case in recent months, the direction of interest rates will largely depend upon the portfolio decisions of foreign investors. When foreign investors are seeking American financial assets, as they were in June, interest rates can fall even as the level of economic activity quickens. If the dollar once again begins falling, especially late this year and early next year, foreigners will avoid our financial assests dramatically. Indeed, long-term interest rates probably have reached a low for the current rally and are expected to rise through the summer months and into the fall. The Federal Reserve is not expected to significantly restrain money growth until after the elections. At that time, short-term interest rates will be moving higher. However, as modestly rising inflationary pressures would have suggested higher interest rates a bit earlier, long-term interest rates will increase even more rapidly. This should result in a temporary steepening of the yield curve. Over the longer-term, however, the yield curve once again is expected to flatten.

Equity Markets - Rising interest rates and falling profitability do not lead to strong stock markets. Currently, foreign investors are again seeking financial assets in the United States under the assumption that the dollar has fundamentally shifted direction. However, this shift in dollar direction probably will run only a few months. If so, attractiveness of equity values by foreign investors will quickly erode. Thus, the stock market rally in blue chip stocks is expected to diminish. Some problems with the availability of semi-conductor chips also is reeking havoc with the technology stocks. Smaller companies, especially those on the over-the-counter market, are expected to experience significant difficulty in maintaining earnings. This will also be a deterrent factor to the equity markets. Probably, the export-oriented companies should no longer be accumulated, at least until the dollar's current strength has run its course. Interest-sensitive securities should be avoided until late this year, when an anticipated additional percentage point is added to long-term interest rates.

Because the summer arrived early on the plains, it appears that the summer also has arrived early in the equity markets. However, the summer rally may be over soon after the official summer begins.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 103827 | 104262 | 122.4 | 123.0 | 114129 | 114129 | 5.8 | 5.8 | 176.4 | 176.6 |
| February | 104365 | 104729 | 123.7 | 123.9 | 114409 | 114409 | 5.7 | 5.7 | 176.5 | 176.7 |
| March | 104661 | 105020 | 123.1 | 123.6 | 114103 | 114103 | 5.6 | 5.6 | 176.8 | 177.0 |
| April | 104835 | 105269 | 123.7 | 125.0 | 114713 | 114713 | 5.4 | 5.4 | 177.6 | 177.8 |
| May | 105151 | 105478 | 124.0 | 124.5 | 114635 | 114195 | 5.4 | 5.6 | 177.5 | 178.8 |
| June | 105467 | 105710* | 124.3 | 124.8* | 114812 | 114826* | 5.4 | 5.5* | 177.8 | 179.3* |
| July | 105623 | 105972 | 124.6 | 125.1 | 115093 | 115115 | 5.4 | 5.4 | 178.4 | 179.9 |
| August | 105807 | 106168 | 125.0 | 125.3 | 115405 | 115352 | 5.2 | 5.4 | 179.1 | 180.4 |
| September | 105991 | 106396 | 125.4 | 125.6 | 115717 | 115638 | 5.2 | 5.3 | 179.8 | 181.0 |
| October | 106117 | 106610 | 125.4 | 125.8 | 115843 | 115792 | 5.2 | 5.3 | 180.2 | 181.8 |
| November | 106266 | 106798 | 125.2 | 126.0 | 115926 | 116041 | 5.1 | 5.2 | 180.6 | 182.5 |
| December | 106415 | 106910 | 125.3 | 126.1 | 115988 | 116129 | 5.2 | 5.3 | 180.9 | 183.3 |
| January 1989 | 106563 | 106955 | 125.6 | 126.1 | 116124 | 116239 | 5.1 | 5.4 | 181.5 | 183.9 |
| February | 106528 | 107085 | 125.5 | 126.2 | 116325 | 116428 | 5.1 | 5.4 | 182.2 | 184.4 |
| March | 106757 | 107246 | 125.5 | 126.4 | 116528 | 116637 | 5.1 | 5.4 | 182.9 | 185.0 |
| April | 106928 | 107358 | 125.7 | 126.5 | 116645 | 116780 | 5.2 | 5.4 | 183.5 | 185.6 |
| May | 107038 | 107489 | 125.9 | 126.6 | 116767 | 116976 | 5.2 | 5.4 | 184.0 | 186.3 |
| June | 107149 | 107562 | 126.0 | 126.6 | 116890 | 117044 | 5.3 | 5.5 | 184.5 | 187.0 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 3.873 | 3.872 | 2.293 | 2.293 | 153.7 | 155.9 | 3.297 | 3.297 | 3.143 | 3.141 |
| February | 3.895 | 3.896 | 2.307 | 2.309 | 154.5 | 151.1 | 3.323 | 3.324 | 3.168 | 3.173 |
| March | 3.924 | 3.937 | 2.319 | 2.325 | 157.1 | 166.3 | 3.341 | 3.355 | 3.190 | 3.188 |
| April | 3.940 | 3.941 | 2.334 | 2.337 | 139.6 | 119.6 | 3.346 | 3.322 | 3.206 | 3.202 |
| May | 3.958 | 3.954 | 2.342 | 2.349 | 133.5 | 151.9 | 3.352 | 3.370 | 3.219 | 3.219 |
| June | 3.976 | 3.975* | 2.350 | 2.363* | 127.3 | 148.0* | 3.359 | 3.386* | 3.232 | 3.238* |
| July | 3.993 | 3.999 | 2.364 | 2.378 | 125.4 | 150.3 | 3.379 | 3.405 | 3.254 | 3.255 |
| August | 4.009 | 4.020 | 2.379 | 2.390 | 123.1 | 146.1 | 3.398 | 3.421 | 3.275 | 3.275 |
| September | 4.025 | 4.043 | 2.395 | 2.405 | 122.9 | 142.2 | 3.418 | 3.439 | 3.295 | 3.297 |
| October | 4.043 | 4.066 | 2.403 | 2.422 | 125.3 | 157.2 | 3.429 | 3.457 | 3.304 | 3.300 |
| November | 4.061 | 4.088 | 2.406 | 2.436 | 128.3 | 154.3 | 3.442 | 3.474 | 3.314 | 3.320 |
| December | 4.079 | 4.112 | 2.410 | 2.451 | 131.4 | 150.8 | 3.455 | 3.493 | 3.324 | 3.342 |
| January 1989 | 4.098 | 4.129 | 2.425 | 2.460 | 146.7 | 168.2 | 3.497 | 3.528 | 3.350 | 3.360 |
| February | 4.120 | 4.149 | 2.440 | 2.471 | 147.6 | 177.4 | 3.514 | 3.550 | 3.366 | 3.373 |
| March | 4.142 | 4.171 | 2.454 | 2.484 | 148.4 | 177.6 | 3.529 | 3.570 | 3.381 | 3.392 |
| April | 4.159 | 4.191 | 2.464 | 2.496 | 140.6 | 177.4 | 3.541 | 3.586 | 3.400 | 3.409 |
| May | 4.175 | 4.211 | 2.475 | 2.508 | 134.7 | 175.3 | 3.553 | 3.601 | 3.418 | 3.426 |
| June | 4.192 | 4.231 | 2.485 | 2.519 | 129.4 | 175.5 | 3.564 | 3.616 | 3.435 | 3.441 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 3045.3 | 3042.9 | 419.7 | 418.4 | 992.0 | 991.8 | 1633.6 | 1632.6 | 2513.5 | 2511.0 |
| February | 3069.5 | 3074.1 | 428.9 | 428.9 | 990.0 | 995.2 | 1650.6 | 1650.0 | 2532.9 | 2536.7 |
| March | 3091.3 | 3089.3 | 428.6 | 424.4 | 999.8 | 1008.6 | 1662.8 | 1656.3 | 2538.1 | 2537.4 |
| April | 3104.7 | 3102.8 | 425.4 | 432.3 | 1006.4 | 1003.5 | 1672.9 | 1667.1 | 2536.5 | 2532.6 |
| May | 3118.6 | 3118.6 | 426.3 | 430.8 | 1008.6 | 1011.1 | 1683.7 | 1676.7 | 2533.4 | 2533.4* |
| June | 3132.5 | 3137.7* | 427.2 | 431.3* | 1010.9 | 1018.8* | 1694.4 | 1687.6* | 2530.3 | 2535.1 |
| July | 3152.0 | 3154.0 | 430.6 | 433.0 | 1016.6 | 1022.6 | 1704.8 | 1698.4 | 2539.9 | 2539.5 |
| August | 3177.2 | 3173.8 | 439.4 | 438.9 | 1022.3 | 1026.6 | 1715.5 | 1708.3 | 2558.1 | 2547.1 |
| September | 3192.1 | 3195.3 | 440.4 | 444.8 | 1025.6 | 1031.9 | 1726.1 | 1718.6 | 2566.0 | 2556.6 |
| October | 3190.9 | 3197.8 | 423.6 | 433.0 | 1030.5 | 1036.9 | 1736.8 | 1727.9 | 2552.7 | 2549.0 |
| November | 3211.6 | 3217.2 | 427.3 | 436.7 | 1036.6 | 1042.1 | 1747.7 | 1738.4 | 2552.9 | 2555.2 |
| December | 3231.8 | 3239.2 | 431.0 | 442.5 | 1042.3 | 1047.2 | 1758.5 | 1749.5 | 2554.8 | 2561.7 |
| January 1989 | 3247.4 | 3256.3 | 431.9 | 439.7 | 1045.6 | 1056.3 | 1769.9 | 1760.3 | 2559.0 | 2563.2 |
| February | 3263.0 | 3268.6 | 432.7 | 436.4 | 1049.3 | 1061.4 | 1781.0 | 1770.8 | 2565.3 | 2561.0 |
| March | 3277.2 | 3287.8 | 432.0 | 439.5 | 1053.0 | 1067.1 | 1792.2 | 1781.2 | 2570.4 | 2565.0 |
| April | 3295.3 | 3303.5 | 433.0 | 439.7 | 1058.5 | 1071.4 | 1803.8 | 1792.4 | 2572.4 | 2565.3 |
| May | 3313.1 | 3320.1 | 434.1 | 441.3 | 1063.1 | 1075.0 | 1815.9 | 1803.8 | 2572.3 | 2567.6 |
| June | 3329.4 | 3334.4 | 433.7 | 440.7 | 1067.7 | 1078.2 | 1828.0 | 1815.5 | 2571.0 | 2568.5 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 128.77 | 128.77 | 19.75 | 19.75 | 10.4 | 10.4 | 80.08 | 80.08 | 28.94 | 28.94 |
| February | 130.12 | 130.12 | 20.19 | 20.19 | 11.0 | 11.0 | 80.41 | 80.41 | 29.52 | 29.52 |
| March | 132.40 | 132.26 | 20.54 | 20.59 | 10.7 | 10.7 | 81.83 | 81.78 | 30.04 | 29.90 |
| April | 131.58 | 131.76 | 20.53 | 20.73 | 10.5 | 10.5 | 81.33 | 81.38 | 29.72 | 29.66 |
| May | 132.01 | 131.88 | 20.79 | 20.77 | 10.0 | 10.2 | 81.96 | 81.82 | 29.26 | 29.30 |
| June | 132.59 | 132.49* | 21.01 | 20.85* | 10.1 | 10.1* | 82.24 | 82.29* | 29.34 | 29.35* |
| July | 133.64 | 133.00 | 21.23 | 20.82 | 10.2 | 10.2 | 82.89 | 82.60 | 29.52 | 29.58 |
| August | 134.91 | 134.01 | 21.20 | 20.73 | 10.5 | 10.5 | 83.35 | 82.92 | 30.36 | 30.36 |
| September | 135.53 | 135.12 | 20.75 | 20.78 | 10.8 | 10.7 | 83.62 | 83.35 | 31.16 | 30.99 |
| October | 134.04 | 134.15 | 20.64 | 20.84 | 9.9 | 10.0 | 84.02 | 83.75 | 29.38 | 29.56 |
| November | 134.88 | 135.00 | 20.80 | 20.93 | 10.0 | 10.1 | 84.52 | 84.17 | 29.56 | 29.90 |
| December | 135.78 | 136.08 | 21.07 | 20.96 | 10.0 | 10.3 | 84.98 | 84.58 | 29.73 | 30.54 |
| January 1989 | 136.16 | 136.50 | 20.95 | 20.85 | 10.1 | 10.2 | 85.25 | 85.32 | 29.96 | 30.33 |
| February | 136.56 | 136.52 | 20.81 | 20.93 | 10.2 | 10.0 | 85.56 | 85.73 | 30.19 | 29.86 |
| March | 136.78 | 137.35 | 20.62 | 21.01 | 10.2 | 10.1 | 85.86 | 86.19 | 30.30 | 30.15 |
| April | 137.05 | 137.72 | 20.76 | 21.05 | 10.0 | 10.0 | 86.31 | 86.54 | 29.98 | 30.13 |
| May | 137.64 | 138.19 | 20.84 | 21.03 | 10.0 | 10.0 | 86.68 | 86.83 | 30.12 | 30.33 |
| June | 137.38 | 138.39 | 20.89 | 21.14 | 9.6 | 9.9 | 87.06 | 87.09 | 29.43 | 30.16 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 1.382 | 1.382 | 1.016 | 1.016 | 1.257 | 1.248 | 394.5 | 394.5 | 345.2 | 345.2 |
| February | 1.519 | 1.519 | 1.102 | 1.102 | 1.422 | 1.429 | 396.0 | 396.0 | 345.2 | 345.2 |
| March | 1.554 | 1.529 | 1.176 | 1.172 | 1.476 | 1.476 | 401.8 | 401.2 | 349.5 | 349.0 |
| April | 1.561 | 1.576 | 1.095 | 1.088 | 1.416 | 1.449 | 402.7 | 401.8 | 349.0 | 350.8 |
| May | 1.568 | 1.384 | 1.128 | 0.988 | 1.426 | 1.427 | 404.1 | 401.5* | 349.3 | 350.0* |
| June | 1.553 | 1.464* | 1.139 | 1.043* | 1.407 | 1.396* | 406.3 | 397.4 | 349.9 | 345.6 |
| July | 1.521 | 1.483 | 1.108 | 1.068 | 1.386 | 1.398 | 408.5 | 397.7 | 350.9 | 344.6 |
| August | 1.496 | 1.459 | 1.102 | 1.054 | 1.372 | 1.354 | 410.5 | 395.5 | 351.8 | 342.1 |
| September | 1.492 | 1.446 | 1.095 | 1.035 | 1.389 | 1.348 | 412.3 | 397.9 | 352.1 | 343.0 |
| October | 1.496 | 1.448 | 1.086 | 1.026 | 1.406 | 1.359 | 411.1 | 398.3 | 350.2 | 342.8 |
| November | 1.503 | 1.464 | 1.083 | 1.035 | 1.389 | 1.372 | 409.9 | 398.5 | 348.3 | 342.1 |
| December | 1.502 | 1.455 | 1.079 | 1.021 | 1.401 | 1.370 | 408.9 | 400.3 | 346.2 | 342.7 |
| January 1989 | 1.478 | 1.411 | 1.067 | 0.989 | 1.375 | 1.354 | 410.1 | 401.7 | 346.1 | 343.0 |
| February | 1.465 | 1.412 | 1.053 | 0.983 | 1.364 | 1.346 | 411.2 | 402.2 | 345.8 | 342.9 |
| March | 1.452 | 1.444 | 1.050 | 1.005 | 1.348 | 1.369 | 412.2 | 401.4 | 345.5 | 341.3 |
| April | 1.448 | 1.475 | 1.036 | 1.026 | 1.326 | 1.394 | 411.8 | 402.0 | 344.0 | 340.7 |
| May | 1.446 | 1.500 | 1.029 | 1.029 | 1.329 | 1.422 | 411.8 | 405.9 | 342.6 | 343.1 |
| June | 1.442 | 1.509 | 1.021 | 1.053 | 1.322 | 1.429 | 412.1 | 410.4 | 341.4 | 345.7 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 127.2 | 127.2 | 75.3 | 75.3 | 192.0 | 192.0 |
| February | 128.0 | 128.0 | 78.1 | 77.9 | 189.9 | 190.1 |
| March | 128.1 | 125.1 | 82.3 | 81.8 | 191.4 | 194.2 |
| April | 128.3 | 130.6 | 80.6 | 79.3 | 193.8 | 191.9 |
| May | 128.6 | 129.2* | 80.0 | 79.7* | 195.5 | 192.6* |
| June | 128.8 | 129.0 | 80.3 | 80.0 | 197.2 | 188.4 |
| July | 128.5 | 129.5 | 80.5 | 80.3 | 199.5 | 187.9 |
| August | 128.9 | 129.4 | 80.9 | 80.9 | 200.7 | 185.2 |
| September | 129.2 | 129.3 | 81.3 | 80.5 | 201.8 | 188.1 |
| October | 129.0 | 129.5 | 81.6 | 81.2 | 200.5 | 187.6 |
| November | 128.8 | 129.8 | 81.9 | 81.6 | 199.2 | 187.1 |
| December | 128.9 | 130.4 | 82.1 | 82.1 | 197.9 | 187.8 |
| January 1989 | 129.0 | 130.9 | 82.5 | 82.6 | 198.6 | 188.2 |
| February | 129.1 | 131.3 | 82.9 | 83.0 | 199.2 | 187.9 |
| March | 129.2 | 130.7 | 83.3 | 83.5 | 199.7 | 187.2 |
| April | 129.4 | 130.9 | 83.5 | 83.3 | 198.9 | 187.8 |
| May | 129.7 | 131.4 | 83.8 | 83.9 | 198.3 | 190.6 |
| June | 130.0 | 131.9 | 84.1 | 84.4 | 198.0 | 194.1 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 336.8 | 336.8 | 114.20 | 114.20 | 34.79 | 34.79 | 30.65 | 30.65 |
| February | 338.4 | 338.6 | 114.26 | 114.32 | 33.75 | 33.76 | 30.71 | 30.72 |
| March | 339.4 | 339.5 | 115.31 | 115.25 | 32.46 | 32.48 | 31.69 | 31.71 |
| April | 340.9 | 340.9 | 116.28 | 117.27 | 32.90 | 33.49 | 30.90 | 31.07 |
| May | 342.8 | 343.1* | 117.43 | 115.06 | 33.55 | 31.52 | 31.26 | 31.87 |
| June | 345.0 | 344.8 | 114.39 | 116.93* | 32.16 | 32.14* | 31.75 | 31.66* |
| July | 345.9 | 346.2 | 114.62 | 118.24 | 32.49 | 33.29 | 32.39 | 31.89 |
| August | 346.8 | 347.4 | 116.21 | 117.22 | 33.31 | 32.46 | 32.71 | 32.06 |
| September | 347.7 | 348.7 | 115.05 | 117.46 | 32.75 | 33.21 | 33.04 | 32.47 |
| October | 349.8 | 350.0 | 114.85 | 117.25 | 32.93 | 33.46 | 32.83 | 32.83 |
| November | 351.9 | 351.8 | 114.37 | 116.38 | 32.86 | 33.40 | 32.95 | 32.80 |
| December | 354.0 | 353.5 | 116.27 | 115.46 | 33.14 | 32.82 | 32.90 | 32.75 |
| January 1989 | 355.8 | 354.9 | 116.63 | 115.92 | 33.20 | 32.73 | 33.14 | 32.84 |
| February | 357.4 | 357.0 | 115.08 | 115.73 | 32.86 | 32.81 | 33.22 | 33.01 |
| March | 359.0 | 358.6 | 114.82 | 116.08 | 32.53 | 32.93 | 32.85 | 33.15 |
| April | 360.8 | 360.5 | 115.06 | 115.46 | 33.16 | 32.85 | 33.14 | 33.12 |
| May | 362.9 | 362.2 | 114.43 | 115.84 | 31.84 | 32.73 | 32.27 | 33.01 |
| June | 365.0 | 363.7 | 115.95 | 115.43 | 32.14 | 32.55 | 32.06 | 32.97 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 715.0 | 715.0 | 8.43 | 8.43 | 134.4 | 134.4 | 82.5 | 82.5 |
| February | 717.9 | 717.9 | 8.50 | 8.50 | 134.4 | 134.4 | 82.4 | 82.4 |
| March | 720.0 | 720.1 | 9.52 | 9.50 | 134.7 | 134.7 | 82.4 | 82.4 |
| April | 723.5 | 723.7 | 8.58 | 8.47 | 135.6 | 135.5 | 82.7 | 82.7 |
| May | 726.4 | 726.6* | 8.50 | 8.33 | 135.9 | 136.0 | 82.8 | 82.9 |
| June | 729.4 | 730.3 | 8.58 | 8.38* | 136.2 | 136.4* | 82.8 | 83.0* |
| July | 732.3 | 733.6 | 8.46 | 8.53 | 136.5 | 136.8 | 82.9 | 83.1 |
| August | 734.5 | 736.4 | 8.54 | 8.56 | 136.8 | 137.1 | 82.9 | 83.1 |
| September | 736.7 | 739.5 | 8.63 | 8.65 | 137.1 | 137.5 | 83.0 | 83.2 |
| October | 740.8 | 742.4 | 8.60 | 8.57 | 137.2 | 137.7 | 82.9 | 83.2 |
| November | 745.8 | 746.2 | 8.77 | 8.69 | 137.0 | 138.0 | 82.7 | 83.2 |
| December | 750.6 | 749.5 | 8.95 | 8.75 | 137.0 | 138.1 | 82.6 | 83.0 |
| January 1989 | 753.4 | 752.5 | 9.00 | 8.83 | 136.9 | 137.9 | 82.4 | 82.8 |
| February | 756.4 | 757.3 | 9.01 | 8.85 | 137.0 | 138.1 | 82.3 | 82.8 |
| March | 759.3 | 760.7 | 9.00 | 8.81 | 137.0 | 138.4 | 82.2 | 82.9 |
| April | 762.9 | 764.7 | 9.13 | 8.88 | 135.5 | 138.6 | 81.2 | 82.9 |
| May | 766.3 | 768.3 | 9.25 | 8.94 | 135.0 | 138.5 | 80.8 | 82.7 |
| June | 769.7 | 771.5 | 9.38 | 9.11 | 134.5 | 138.3 | 80.3 | 82.4 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 115.9 | 115.9 | 106.1 | 106.1 | 104.3 | 104.4 | 119.1 | 119.1 |
| February | 116.1 | 116.1 | 105.9 | 105.9 | 104.4 | 104.4 | 119.4 | 119.2 |
| March | 116.7 | 116.7 | 106.5 | 106.5 | 104.7 | 104.7 | 119.6 | 119.0 |
| April | 117.2 | 117.2 | 107.0 | 107.0 | 105.6 | 105.6 | 120.1 | 119.6 |
| May | 117.8 | 117.5 | 107.5 | 107.4 | 105.9 | 106.1 | 120.7 | 120.1 |
| June | 118.3 | 118.0* | 107.9 | 107.9* | 105.9 | 106.3* | 121.2 | 120.6 |
| July | 118.7 | 118.4 | 108.2 | 108.1 | 106.8 | 106.4 | 121.5 | 121.0 |
| August | 119.1 | 118.8 | 108.4 | 108.3 | 107.5 | 106.8 | 121.8 | 121.4 |
| September | 119.5 | 119.1 | 108.6 | 108.5 | 106.4 | 105.6 | 122.1 | 121.8 |
| October | 120.0 | 119.6 | 108.9 | 108.9 | 107.8 | 107.5 | 122.5 | 122.2 |
| November | 120.5 | 120.1 | 109.3 | 109.3 | 108.0 | 107.8 | 122.8 | 122.6 |
| December | 121.0 | 120.6 | 109.8 | 109.7 | 108.1 | 108.3 | 123.2 | 123.0 |
| January 1989 | 121.4 | 121.2 | 110.2 | 110.2 | 108.6 | 109.0 | 123.7 | 123.7 |
| February | 121.8 | 121.8 | 110.5 | 110.7 | 109.1 | 109.6 | 124.1 | 124.5 |
| March | 122.2 | 122.4 | 110.8 | 111.3 | 109.5 | 110.0 | 124.5 | 124.8 |
| April | 122.8 | 123.0 | 111.4 | 111.8 | 110.1 | 110.4 | 125.0 | 125.4 |
| May | 123.4 | 123.5 | 112.0 | 112.3 | 110.8 | 110.8 | 125.5 | 125.9 |
| June | 124.0 | 124.0 | 112.5 | 112.9 | 111.5 | 111.5 | 125.9 | 126.4 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 121.1 | 121.2 | 107.4 | 107.5 | 113.4 | 113.6 | 130.7 | 130.7 | 114.3 | 114.3 |
| February | 121.2 | 121.2 | 107.4 | 107.4 | 113.3 | 113.2 | 131.1 | 131.1 | 114.7 | 114.7 |
| March | 121.8 | 121.8 | 107.5 | 107.4 | 114.2 | 114.2 | 131.6 | 131.5 | 115.0 | 115.0 |
| April | 122.4 | 122.5 | 107.9 | 107.6 | 115.2 | 115.5 | 132.2 | 132.1 | 115.4 | 114.5 |
| May | 123.1 | 123.1* | 108.1 | 107.8* | 115.7 | 116.3* | 132.8 | 132.6* | 115.7 | 114.7* |
| June | 123.8 | 123.8 | 108.3 | 108.2 | 116.1 | 117.3 | 133.4 | 133.1 | 116.1 | 115.0 |
| July | 124.1 | 124.2 | 108.8 | 108.4 | 116.3 | 117.7 | 133.9 | 133.6 | 116.4 | 115.4 |
| August | 124.2 | 124.6 | 109.2 | 108.6 | 116.5 | 118.0 | 134.4 | 134.2 | 116.7 | 115.6 |
| September | 124.4 | 125.0 | 109.0 | 108.9 | 116.6 | 118.3 | 135.0 | 134.7 | 117.1 | 116.0 |
| October | 125.0 | 125.5 | 109.3 | 109.1 | 117.3 | 118.5 | 135.5 | 135.3 | 117.4 | 116.2 |
| November | 125.8 | 125.9 | 109.2 | 109.3 | 118.1 | 118.9 | 136.0 | 135.9 | 117.7 | 116.5 |
| December | 126.5 | 126.4 | 109.4 | 109.6 | 118.8 | 119.5 | 136.6 | 136.5 | 118.1 | 116.8 |
| January 1989 | 126.9 | 127.0 | 109.6 | 109.8 | 119.2 | 120.2 | 137.2 | 137.1 | 118.5 | 117.1 |
| February | 127.2 | 127.6 | 109.9 | 110.1 | 119.5 | 120.8 | 137.7 | 137.7 | 118.9 | 117.3 |
| March | 127.5 | 128.2 | 110.2 | 110.4 | 119.9 | 121.4 | 138.3 | 138.3 | 119.3 | 117.6 |
| April | 128.1 | 128.8 | 110.4 | 110.6 | 120.6 | 122.0 | 138.9 | 139.0 | 119.7 | 118.0 |
| May | 128.8 | 129.3 | 110.6 | 110.9 | 121.0 | 122.5 | 139.5 | 139.6 | 120.1 | 118.3 |
| June | 129.5 | 129.8 | 110.9 | 111.2 | 121.4 | 122.9 | 140.1 | 140.2 | 120.5 | 118.7 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | -12.44 | -12.44 | 188.9 | 188.7 | 4638 | 4638 | 3894 | 3892 | -17.8 | -17.8 |
| February | -13.82 | -13.82 | 191.8 | 191.5 | 4660 | 4663 | 3903 | 3912 | -16.5 | -17.4 |
| March | -13.14 | -9.75 | 193.3 | 191.8 | 4685 | 4694 | 3917 | 3943 | -16.4 | -16.9 |
| April | -13.06 | -9.89 | 194.5 | 192.8 | 4710 | 4723 | 3922 | 3949 | -19.6 | -18.3 |
| May | -12.77 | -8.95* | 194.2 | 192.6 | 4740 | 4747 | 3927 | 3953 | -22.3 | -19.6 |
| June | -12.49 | -10.23 | 194.5 | 193.0 | 4769 | 4778 | 3935 | 3962 | -22.6 | -17.2 |
| July | -14.23 | -10.76 | 194.8 | 193.4 | 4793 | 4808 | 3945 | 3974 | -23.4 | -15.3 |
| August | -14.02 | -10.24 | 194.5 | 193.1 | 4814 | 4832 | 3952 | 3980 | -22.8 | -12.7 |
| September | -12.82 | -9.83 | 194.1 | 193.0 | 4835 | 4864 | 3960 | 3993 | -22.1 | -13.3 |
| October | -13.34 | -10.15 | 194.6 | 193.3 | 4852 | 4886 | 3961 | 3998 | -21.4 | -15.2 |
| November | -12.95 | -10.46 | 195.3 | 193.5 | 4870 | 4912 | 3966 | 4006 | -20.1 | -16.8 |
| December | -12.56 | -11.23 | 195.6 | 193.2 | 4887 | 4939 | 3967 | 4015 | -18.8 | -18.4 |
| January 1989 | -12.65 | -10.82 | 195.4 | 192.8 | 4909 | 4964 | 3968 | 4013 | -18.5 | -18.3 |
| February | -12.32 | -9.26 | 195.3 | 192.5 | 4936 | 4997 | 3977 | 4014 | -19.0 | -16.9 |
| March | -11.97 | -8.85 | 195.7 | 192.6 | 4963 | 5016 | 3986 | 4019 | -18.4 | -12.4 |
| April | -12.17 | -8.93 | 195.0 | 192.4 | 4982 | 5049 | 3986 | 4026 | -23.9 | -14.4 |
| May | -11.98 | -8.54 | 194.6 | 192.0 | 5000 | 5073 | 3984 | 4029 | -29.6 | -13.6 |
| June | -11.79 | -8.68 | 194.2 | 192.2 | 5018 | 5096 | 3986 | 4032 | -28.7 | -12.5 |

| | Trade Index | | Adjusted Profits | | 30-Year Government Bonds | | New York Composite | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore | C.E. | Fore. | C.E. |
| January 1988 | 89.18 | 89.18 | 168.3 | 170.4 | 8.83 | 8.83 | 140.55 | 140.55 |
| February | 91.09 | 91.09 | 171.5 | 174.2 | 8.43 | 8.43 | 145.13 | 145.13 |
| March | 89.73 | 89.73 | 172.6 | 176.2 | 8.63 | 8.63 | 149.88 | 149.88 |
| April | 88.95 | 88.95 | 169.3 | 181.4 | 8.95 | 8.95 | 148.46 | 148.46 |
| May | 89.43 | 89.74 | 168.0 | 180.9 | 9.23 | 9.23 | 147.79 | 144.84 |
| June | 91.02 | 93.01* | 168.8 | 182.5* | 9.16 | 8.96* | 149.76 | 150.55* |
| July | 90.14 | 92.16 | 168.3 | 183.6 | 9.37 | 8.98 | 152.45 | 151.12 |
| August | 89.51 | 92.11 | 168.0 | 182.5 | 9.49 | 9.03 | 155.93 | 151.19 |
| September | 88.25 | 90.34 | 168.3 | 180.3 | 9.43 | 9.22 | 154.40 | 146.29 |
| October | 87.43 | 89.46 | 167.8 | 176.4 | 9.65 | 9.47 | 148.26 | 139.35 |
| November | 86.84 | 89.21 | 167.5 | 176.8 | 9.86 | 9.76 | 147.51 | 135.51 |
| December | 86.13 | 86.33 | 167.2 | 175.6 | 10.04 | 9.85 | 146.78 | 133.36 |
| January 1989 | 86.42 | 87.12 | 169.4 | 175.2 | 10.02 | 9.78 | 144.23 | 134.01 |
| February | 85.36 | 87.86 | 169.8 | 174.3 | 9.82 | 9.74 | 146.85 | 133.87 |
| March | 84.28 | 88.29 | 167.8 | 174.5 | 9.76 | 9.53 | 142.78 | 136.98 |
| April | 84.39 | 88.93 | 163.4 | 166.8 | 9.54 | 9.36 | 136.43 | 133.31 |
| May | 85.53 | 87.26 | 159.7 | 165.2 | 9.47 | 9.15 | 139.75 | 135.06 |
| June | 84.48 | 87.43 | 156.0 | 164.9 | 9.45 | 9.02 | 140.58 | 136.76 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 271.3 | 271.3 | 758.9 | 758.9 | 2924.9 | 2925.0 | 6.83 | 6.83 | 6.25 | 6.25 |
| February | 272.0 | 272.1 | 759.6 | 759.6 | 2946.1 | 2946.0 | 6.58 | 6.58 | 5.96 | 5.96 |
| March | 272.5 | 272.8 | 763.1 | 763.1 | 2967.7 | 2967.5 | 6.58 | 6.58 | 5.91 | 5.91 |
| April | 275.2 | 275.8 | 770.2 | 770.2 | 2992.3 | 2991.9 | 6.87 | 6.87 | 6.21 | 6.21 |
| May | 278.0 | 276.7 | 771.3 | 770.1 | 3012.6 | 3003.7 | 6.98 | 7.09 | 6.28 | 6.56 |
| June | 280.8 | 277.5* | 772.5 | 773.8* | 3032.8 | 3016.5* | 7.09 | 7.46* | 6.35 | 6.63* |
| July | 282.3 | 279.1 | 778.9 | 778.1 | 3050.6 | 3032.4 | 7.10 | 7.43 | 6.39 | 6.58 |
| August | 283.6 | 280.6 | 785.0 | 782.6 | 3069.7 | 3049.5 | 7.05 | 7.37 | 6.35 | 6.54 |
| September | 285.0 | 282.4 | 791.2 | 787.3 | 3088.8 | 3068.8 | 7.11 | 7.48 | 6.40 | 6.69 |
| October | 286.8 | 284.3 | 793.7 | 791.8 | 3100.2 | 3086.3 | 7.20 | 7.56 | 6.56 | 6.83 |
| November | 288.2 | 286.0 | 794.3 | 795.7 | 3111.8 | 3103.5 | 7.43 | 7.93 | 6.75 | 7.02 |
| December | 289.6 | 287.3 | 795.1 | 798.7 | 3123.4 | 3119.0 | 7.45 | 8.08 | 6.79 | 7.16 |
| January 1989 | 291.3 | 288.5 | 803.6 | 801.5 | 3142.6 | 3134.6 | 7.26 | 8.21 | 6.53 | 7.24 |
| February | 292.6 | 289.9 | 811.6 | 805.1 | 3159.7 | 3154.7 | 7.15 | 8.24 | 6.45 | 7.30 |
| March | 294.0 | 291.4 | 819.5 | 809.5 | 3176.3 | 3173.9 | 7.08 | 8.13 | 6.41 | 7.09 |
| April | 295.7 | 293.1 | 824.6 | 814.8 | 3191.5 | 3194.7 | 7.05 | 8.05 | 6.25 | 7.01 |
| May | 296.9 | 294.7 | 829.2 | 819.9 | 3209.7 | 3214.3 | 6.94 | 7.96 | 6.19 | 6.85 |
| June | 298.1 | 296.3 | 833.9 | 824.9 | 3227.8 | 3230.9 | 6.83 | 7.75 | 6.13 | 6.79 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 9.88 | 9.88 | 7.69 | 7.69 | 6.87 | 6.87 | 6.92 | 6.92 | 8.75 | 8.75 |
| February | 9.40 | 9.40 | 7.49 | 7.49 | 6.58 | 6.58 | 6.60 | 6.60 | 8.51 | 8.51 |
| March | 9.39 | 9.39 | 7.74 | 7.74 | 6.62 | 6.62 | 6.63 | 6.63 | 8.50 | 8.50 |
| April | 9.67 | 9.67 | 7.81 | 7.81 | 6.86 | 6.86 | 6.92 | 6.92 | 8.50 | 8.50 |
| May | 9.78 | 9.90 | 7.90 | 7.91 | 7.03 | 7.19 | 7.09 | 7.24 | 8.89 | 8.84 |
| June | 9.89 | 9.84* | 7.95 | 7.69* | 7.15 | 7.42* | 7.22 | 7.43* | 9.00 | 9.00* |
| July | 10.05 | 9.72 | 8.09 | 7.58 | 7.22 | 7.36 | 7.29 | 7.41 | 9.00 | 9.00 |
| August | 10.08 | 9.83 | 8.11 | 7.68 | 7.16 | 7.31 | 7.23 | 7.37 | 9.00 | 9.00 |
| September | 10.12 | 10.13 | 8.16 | 7.95 | 7.20 | 7.45 | 7.28 | 7.52 | 9.00 | 9.00 |
| October | 10.20 | 10.29 | 8.23 | 8.11 | 7.27 | 7.62 | 7.35 | 7.69 | 9.00 | 9.00 |
| November | 10.26 | 10.54 | 8.30 | 8.38 | 7.50 | 7.88 | 7.62 | 7.95 | 9.36 | 9.43 |
| December | 10.32 | 10.66 | 8.36 | 8.53 | 7.43 | 8.03 | 7.51 | 8.14 | 9.50 | 9.76 |
| January 1989 | 10.20 | 10.65 | 8.31 | 8.48 | 7.18 | 8.17 | 7.26 | 8.22 | 9.50 | 10.00 |
| February | 10.05 | 10.58 | 8.09 | 8.41 | 7.10 | 8.20 | 7.17 | 8.26 | 9.50 | 10.00 |
| March | 9.88 | 10.51 | 7.90 | 8.32 | 7.02 | 8.06 | 7.11 | 8.13 | 9.50 | 10.00 |
| April | 9.93 | 10.28 | 7.94 | 8.12 | 6.96 | 7.92 | 6.99 | 8.02 | 9.28 | 10.00 |
| May | 9.86 | 10.14 | 7.87 | 7.99 | 6.93 | 7.86 | 6.98 | 7.95 | 9.25 | 9.73 |
| June | 9.79 | 10.03 | 7.78 | 7.87 | 6.78 | 7.71 | 6.87 | 7.80 | 9.25 | 9.50 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

8/10/88 U1880-3

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Economic Forecasting Center
College of Business Administration
404/651-3282

## MONTHLY PROJECTIONS
July 1988

Dr. Donald Ratajczak, Director
For Release: August 2, 1988

## MOMENTUM RATHER THAN RESOURCE UTILIZATION MAY HAVE CREATED ACCELERATING INFLATION

Increasing inflationary pressures, such as the 4.7% fixed weighted increase in the second-quarter GNP deflator, has been largely ascribed to high levels of resource utilization. To be sure, economic activity in the rubber, paper, metals, and textile industries all are at high levels of utilization. However, overall capacity utilization is well below levels that normally stimulate demand-oriented inflationary pressures. The unemployment rate has fallen to 5.3%, which some economists have indicated is on the verge of creating wage-oriented pressures. However, most evidence of increasing inflation indicate that only a small portion is the result of rising wage pressures. While spurting in April and May, the hourly earnings index declined slightly in June. Since January, the index has increased only at an annual rate of 2.6%.

Other wage-related measures also indicate only very modest increases in inflationary pressures. Second-quarter labor costs increased about a percentage point less rapidly at annual rates than in the first quarter, although much of this difference was the presence of Social Security tax increases early in the year. Negotiated labor contracts averaged less than a 3% increase in the first year of the contract, although some contracts are becoming a little more aggressive in subsequent years.

The other portion of labor costs that could signal cost problems ahead, productivity gains, will be revised upward for 1987 as a result of upward revisions in GNP during that year. Instead of a laggard 0.8% increase in productivity, the new data suggests a gain of closer to 1.5%. Of course, our own preliminary estimates suggest a modest decline in productivity measures during the second quarter, but these quarterly performances should not be viewed with alarm. At this point, productivity does not show the significant decay that normally indicates that quality laborers no longer can be found at current wage rates.

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Of course, the drought has added to inflationary pressures, but that has not been the result of either the level or rate of growth of economic activity. Rather, the drought should be viewed as a temporary supply shock whose impact upon the dynamic inflationary process should be limited. Indeed, now that rains have returned, to save most of the soybean crop, it is possible to make a reasonable projection of drought-related price changes. The corn harvest probably will be dramatically impacted, with yields falling to as low as 75 bushels per acre. This leads to only slightly more than 4.5 billion bushels of production. Enough carryover is available to meet all needs, but prices probably will remain near $3 per bushel until possible weather problems next year can be ruled out. Soybean yields probably will be in the 26-27 bushel range, or about 1.7 billion bushels. Because of the absence of substantial carryover, higher prices must materialize. However, soybeans near $9 per bushel should be sufficient to balance demand and supply conditions. This leads to soy meal costs of approximately $260 per ton.

All of these calculations suggest that some price increases will develop next year. In addition, enough stress slaughtering of animals has occurred to significantly fill the meat pipeline in the summer. However, the stress slaughter probably will slow now that many pastures are again greening. The previously anticipated fall slaughter may be slightly diminished if animal feeds stay in the ranges anticipated above. Nevertheless, some shifting of meat production will occur this year at the expense of next year. As a result, meat prices will be stable to slightly declining this summer and autumn and should be rising significantly next year. Our current estimates are that grocery store prices will increase 6.5% next year as compared to a 4.5% gain this year. While this means that food prices as measured by the CPI will rise nearly 6%, direct additions to inflation from the drought are less than 0.5 percentage points.

If the drought and the utilization levels of resources were not responsible for the recent acceleration of inflationary pressures and the surge in industrial material prices, what was? Apparently, with the economy using high levels of resources, a rapid surge in economic activity associated with rapid growth in 1987 led to some bottlenecks that initially created price spurts. Once these bottlenecks were resolved, however, price spurts diminished. Such patterns were obvious in copper and aluminum and probably also developed in industrial chemicals and in latex. This spurt in industrial activity was especially apparent in 1987, where revised data show that economic growth was a full percentage point stronger than originally reported. Although utilization levels remain high, growth rates have slowed. If a spurt rather than the level of activity was responsible for current measures of accelerating inflation, then a slowing in that spurt should lead to moderation of inflationary pressures. In the absence of more supply shocks, inflationary pressures should ease slightly in the second half of 1988.

Of course, dramatic ease should not be anticipated, as current economic growth still is more than the growth of capability. Thus, the slowing of inflationary pressures will not be substantial. Moreover, the Federal Reserve probably appropriately is concerned about the pace of economic growth, although their growth target appears to be slightly anemic at 2.5% per year. Nevertheless, the 4.7% fixed weighted imputed price deflator may be the largest increase in that inflationary measure until a combination of rising oil and meat prices adds to inflationary pressures early in 1989.

GNP growth was less than anticipated in the second quarter, largely as a result of less inventory accumulation than had been anticipated. As business inventories accelerated their rate of accumulation in April and May, either an acceleration of inventory valuation adjustments or anticipated deceleration in inventories in June must be responsible for this result. Certainly, the industrial production gains in June did not suggest that substantial inventory accumulation was occurring. Although industrial production spurted 0.4%, nearly all the gain was the result of a sharp usage of utilities as a result of hot weather. Excluding utilities, industrial production would have increased only 0.1%.

Of course, GNP slowing as a result of reduced inventory accumulation merely adds to production needs in subsequent quarters. Final sales grew a robust 5.4%, indicating that substantial quantities of inventory investments probably will materialize during the summer. Continued strong GNP growth now appears likely in the second half of the year. The Federal Reserve growth target of 2.5% probably will be breached during the summer months, thereby necessitating further Federal Reserve tightening.

Chairman Greenspan indicated that the Federal Reserve has not changed policy, but he probably meant that the current policy of moderate restraint when economic growth exceeds targeted levels will continue. Most market watchers, unfortunately, thought he was saying that no changes in targeted federal funds rates have been made. When the market discovers its error in interpreting Chairman Greenspan's remarks, interest rates probably will rise further.

Although the most memorable part of the three-year revision was the acceleration of economic growth during 1987, shifts in the composition of expenditures also were noteworthy. Consumption was revised upward by more than household income. As a result, the savings rate was lower in the past two years than originally reported. More nondurable goods were purchased than originally expected. On the other hand, fixed investment was slightly less than originally expected by the end of 1987. Most of the weakness was in producers' durable equipment. However, structures also were overstated slightly. For example, first-quarter durable goods spending was $349 billion rather than the nearly $361 billion originally reported. Housing investment also was overstated slightly. Imports were only marginally overstated, but a substantial underestimate of export activity occurred. After inflationary adjustment, trade deficits were not as severe as originally reported. Finally, government was bigger than anticipated, as both federal and local expenditures initially were understated.

A significant upward revision in wages and salaries led to a significant upward revision in personal income. Nonfarm proprietors' income was originally overstated. This apparently was at the expense of personal interest income, which was initially understated by nearly $13 billion. Transfer payments also were understated by nearly $10 billion. Corporate profitability also was understated, but only by a few billion dollars.

The results of all these data revisions is to intensify the savings-investment imbalance, especially in the household sector. Higher corporate profit estimates lead to higher stock market evaluations, but only by a small amount. Aside from intensifying the savings-investment imbalance, the data revisions really are not generating significant discussion. Nevertheless, the more rapid momentum of economic activity in 1987 probably was a contributor to the high industrial commodity price changes that occurred.

## Quarterly Profile of GNP

| | 1988-1 | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1989-2 | 1988 Annual | 1989 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 3.4 | 3.1 | 2.6 | 1.5 | 1.6 | 1.3 | 3.8 | 1.6 |
| Price: | 1.7 | 4.1 | 4.0 | 4.7 | 4.6 | 4.2 | 3.3 | 4.4 |
| Nominal: | 5.1 | 7.2 | 6.7 | 6.3 | 6.3 | 5.5 | 7.2 | 6.1 |

## Monthly Statistical Highlights for July 1988

Payroll employment +227,000; index of hours worked +0.2%; household employment +109,000; civilian unemployment rate 5.4%; personal income +0.5%; savings rate 4.5%; personal consumption +0.5%; retail sales +0.2%; auto sales 10.4 million units; housing starts +5.0%; housing permits -3.1%; construction expenditures -0.6%; business inventories +0.5%; orders for durable goods -5.5%; orders for nondefense capital goods -7.8%; industrial production +0.3%; CPI +0.3%; PPI +0.1%; consumption deflator +0.4%; leading indicators -0.4%; currency index +3.3%; equity index -1.4%; real GNP(AR) +2.1%; M1(AR) +11.5%; M2(AR) +4.4%.

## Monthly Statistical Highlights for August 1988

Payroll employment +265,000; index of hours worked +0.3%; household employment +294,000; civilian unemployment rate 5.3%; personal income +0.6%; savings rate 4.6%; personal consumption +0.5%; retail sales +0.6%; auto sales 10.6 million units; housing starts +0.7%; housing permits +0.4%; construction expenditures +0.9%; business inventories +0.6%; orders for durable goods -0.4%; orders for nondefense capital goods -1.0%; industrial production +0.3%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators -0.2%; currency index +1.7%; equity index +2.5%; real GNP(AR) +4.3%; M1(AR) +11.4%; M2(AR) +7.1%.

## Commentary

NOTE: Because of the three-year data revisions on GNP, several of our indicators have not been revised. Instead, they have been linked using most recent information. A fuller incorporation of the data will occur in our next report.

Employment - An unusually late employment survey may have led to stronger gains in payroll employment than normally would have occurred. Certainly, many teenagers entered the workforce and found jobs, with the household surveys swelling and unemployment falling. Initial claims have increased slightly in early July, suggesting that economic activity once again is slowing following a brief acceleration in June. Thus, the July employment report may not show as much strength as in June. However, a significant decline in government payrolls during June suggests that overall payroll gains still should be reasonably robust, even if hours worked should show only a modest increase.

Good news in the employment report included a significant slowing in hourly earnings, with the index actually falling by 0.1%. Earnings are now 3.2% above previous year levels, down from 3.4% in May.

Personal Income and Outlays - Wage and salary income grew more sharply than anticipated but the largest contributor to strong income growth in June was in property income. Rising interest rates are reflected in sharp increases in personal interest income. As farm income has been drifting lower, personal income gains have been especially impressive. With farm income expected to pick up following disbursement of disaster relief later this year, a few months of rapid gains in personal income are possible.

Disposable income showed stronger gains in June than anticipated, partially as a result of lower tax payments. This reduction in tax payments during an estimation period is surprising. A spurt in tax payments probably will be recorded in July. Of course, delayed refunds may have accounted for the significant dip. Now that interest payments must accompany refunds, a more normal growth in tax liabilities should be anticipated.

The burst in durable goods expenditures was not anticipated in the retail sales report, but appears to be appropriate with respect to auto units sold. Aside from gains in durable goods, the big increase in consumption was in the service sector as a result of significant utility payments. Although hot weather persisted in July, more normal growth in utility payments is expected in that month, followed by a slackening in growth of services expenditures in August if the heat wave diminishes.

A spurt in housing activity probably will cause non-auto durables to perform better in the next few months than originally anticipated. However, weakening in housing activity later in the year should flatten out gains in that area. Auto purchases are expected to remain at relatively healthy levels, although model year-end financing incentives once again are expected to accelerate auto sales. Higher prices for food and gasoline will be reflected in sales of nondurables in the next few months.

Construction - Housing activity rebounded in June, probably as a result of fears of higher mortgages ahead. However, housing permits were much stronger for multi-family units than were starts. This discrepancy suggests significant difficulty in acquiring financing for multiple units. If financing reappears, starts could show a modest burst in the next few months. Nevertheless, rising mortgage rates should put a damper on single-family activity later this year.

Unusually strong expenditures in nonresidential activity should not persist. Apparently, the drought has increased the number of construction days available for large projects. This has tilted expenditures into May, June, and July. However, slower expenditures growth should then be anticipated in the months following. The implicit construction deflator has been fluctuating dramatically in recent months, but is expected to show more orderly and modest gains through the remainder of the year.

Business Activity - All those aircraft orders that had been announced in the financial press finally were discovered by government statistics takers in June. As a result, orders for durable goods surged 8.8%. However, excluding both military and commercial aircraft, orders would have increased only 0.1%. Thus, durable activity should remain at a high but not intensifying level. Many of those aircraft orders will not be worked on until the next decade.

As mentioned above, inventories have been robust in April and May. but preliminary second-quarter GNP estimates suggest that inventory investments slowed in June. Such inventory slowing is not expected to be maintained in the third quarter. However, inventories then could become slightly excessive by the fourth quarter, causing a period of slow growth in economic activity.

Industrial production would have increased only 0.1% except for the increased use of utilities. However, stronger industrial growth is expected in the next few months as inventories are being replenished. The strongest growth probably will be in the business equipment and industrial materials sectors.

Prices - Some pricing discrepancy is beginning to develop between consumer and producers' prices, suggesting a widening of retail margins. This is especially apparent in the food sector. On the other hand, rapid price increases for apparel have been reversed in the last two months. This suggests a shift in seasonal patterns, that will slowly be incorporated in new seasonal adjustments, rather than a substantial intensification of clothing inflation. Apparently, merchandisers are more aggressively increasing prices in the spring and fall and then discounting more aggressively if the merchandise is not quickly accepted by consumers.

Because of stronger growth in non-auto durables, prices of consumer durables are expected to grow more rapidly than previously anticipated. In addition, automobile prices will be up between 3% and 4% in the next model year. A slightly smaller price increase was initially anticipated. Few other significant adjustments were made in our pricing analysis. Most of the drought-induced price changes already were incorporated in our estimates a month ago.

Miscellaneous - Although all the leading indicators are showing positive contributions in June, leading to a surge in that index, sharp gains in orders for plant and equipment appear to be the most significant. Stock prices also are noteworthy. Both of those components will be contributing to a decline in the indicators in July. Initial claims may also contribute weakness. For that reason, the leading indicators could dip again in July following a one-month spurt in June.

Improvement in the merchandise trade balances appears to be the result of inventory liquidations of previously imported goods. Once these liquidations run their course, some increase in the merchandise trade deficit should be anticipated. At that time, the trade index should begin weakening again. We are not convinced that the dollar has fallen sufficiently to preserve the downward trend in trade deficits. When foreign investors also become convinced that further deficit reductions will require further dollar weakness, the dollar is expected to be under renewed downward pressures. This is expected to occur following one or two adverse announcements on merchandise trade deficits.

The upward revision in corporate profitability suggests that higher equity values can be sustained than previously thought. As a result, the equity markets are not currently overvalued. However, if interest rates rise, as expected, and if economic growth slows, also as expected, some weakening in equity values should be anticipated toward the end of this year. A rebound then is projected next year when interest rates begin declining.

## Financial Markets

Household savings has been less than anticipated, partially as a result of unanticipated spending on utilities. When the weather improves, savings rates probably also will rise. However, the corporate sector will then need to accumulate inventories, leading to increased borrowings on their part. In addition, fixed investment continues to grow strongly. It is expected that corporate investment will grow more rapidly than corporate cash flow, leading to increasing borrowings in the credit markets.

Following its spurt in tax collections during the second quarter, the government probably will increase its borrowings for the remainder of the year. Thus, the corporate and government sectors will be moving toward higher interest rate pressures while the household sector will be gradually relieving such pressures. Excluding the interests of foreign investors, this combination would lead to gradual increases in interest rates over the next several months.

Foreign investors currently are predisposed to invest in American assets, as interest rate differentials are greater than three percentage points and the dollar is rallying against most other currencies. Indeed, this predisposition should continue until the dollar reverses direction. However, some currency watchers believe that central banks will not permit the dollar to rally above 1.9 German marks. If so, the upward potential for the dollar is limited at this time. While this could erode foreign investor interest in American assets, such declines in foreign investor desires have not yet become apparent. As a result, interest rates probably will show little direction for the remainder of this summer.

Of course, inflationary fears could continue to intensify. However, the drought probably has created more fears than will be realized. Also, if economic momemtum rather than the level of utilization was responsible for intensifying inflation, such inflationary pressures should ease. This suggests that interest rate pressures could actually recede slightly. Offsetting this assessment is the concern that foreign investors will discover that the dollar's strengh is only temporary. They may then lose their desire for American assets, causing weakness in the dollar, increased resolve by the Federal Reserve to maintain dollar values through higher interest rates, and an upward drift in domestic interest rates.

The most likely outcome is further Federal Reserve restraint, leading to higher federal funds targets. This may not be sufficient to attract foreign investors back. As a result, long-term interest rates also should drift upward, at least for a while. By the end of the year, however, slower economic growth and less inflation than had been feared should begin to cause a rebound in long-term interest rates. A return to sluggish growth could than cause the Federal Reserve to reverse direction, leading to declining interest rates again by the spring.

Equity Markets - During the summer, interest rates are expected to be stable while corporate earnings should continue to rise. This permits a burst in equity value, that could actually exceed the modest increases currently projected. However, late in the year corporate earnings are expected to be growing more slowly while interest rates should be rising. Although no dramatic declines in equity values should result from such conditions, a downward drift in the stock market should again occur. Only in the second half of 1989, when interest rates once again are expected to be trending firmly downward will equity values show any sustained upward move.

Any summer rally should favor the well-known stock issues that are normally accumulated by foreign investors. Because of the potential for an economic downturn in 1989, cyclical stocks should be shunned. Interest-sensitive issues probably could be accumulated at this time, but better prices on those potential earnings will be available later this year.

The dollar's recent strength probably diminishes the attractiveness of export-oriented companies. Indeed, the problem with the equity markets is not a significant amount of overvaluation, but rather the absence of any obvious areas in which to place investments. By the middle of 1989, however, a new administration will have been formed and the philosophy of that administration's policies will be more apparent. If interest rates are trending downward, as also expected, then a substantial increase in equity values could become a possibility as the next decade begins.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 103827 | 104262 | 122.4 | 123.0 | 114129 | 114129 | 5.8 | 5.8 | 176.4 | 176.6 |
| February | 104365 | 104729 | 123.7 | 123.9 | 114409 | 114409 | 5.7 | 5.7 | 176.5 | 176.7 |
| March | 104661 | 105020 | 123.1 | 123.6 | 114103 | 114103 | 5.6 | 5.6 | 176.8 | 177.0 |
| April | 104835 | 105281 | 123.7 | 125.1 | 114713 | 114713 | 5.4 | 5.4 | 177.6 | 178.0 |
| May | 105151 | 105502 | 124.0 | 124.4 | 114635 | 114195 | 5.4 | 5.6 | 177.5 | 178.6 |
| June | 105467 | 105848 | 124.3 | 125.3 | 114812 | 115018 | 5.4 | 5.3 | 177.8 | 178.5 |
| July | 105623 | 106075* | 124.6 | 125.5* | 115093 | 115127* | 5.4 | 5.4* | 178.4 | 178.9* |
| August | 105807 | 106340 | 125.0 | 125.8 | 115405 | 115421 | 5.2 | 5.3 | 179.1 | 179.3 |
| September | 105991 | 106639 | 125.4 | 126.1 | 115717 | 115743 | 5.2 | 5.2 | 179.8 | 179.8 |
| October | 106117 | 106835 | 125.4 | 126.3 | 115843 | 115961 | 5.2 | 5.2 | 180.2 | 180.3 |
| November | 106266 | 107022 | 125.2 | 126.5 | 115926 | 116165 | 5.1 | 5.1 | 180.6 | 180.8 |
| December | 106415 | 107179 | 125.3 | 126.6 | 115988 | 116373 | 5.2 | 5.1 | 180.9 | 181.2 |
| January 1989 | 106563 | 107327 | 125.6 | 126.7 | 116124 | 116553 | 5.1 | 5.1 | 181.5 | 181.7 |
| February | 106528 | 107542 | 125.5 | 126.9 | 116325 | 116843 | 5.1 | 5.0 | 182.2 | 182.4 |
| March | 106757 | 107758 | 125.5 | 127.1 | 116528 | 117072 | 5.1 | 5.0 | 182.9 | 182.9 |
| April | 106928 | 107861 | 125.7 | 127.2 | 116645 | 117302 | 5.2 | 5.0 | 183.5 | 183.5 |
| May | 107038 | 108058 | 125.9 | 127.4 | 116767 | 117501 | 5.2 | 5.0 | 184.0 | 184.1 |
| June | 107149 | 108149 | 126.0 | 127.4 | 116890 | 117575 | 5.3 | 5.1 | 184.5 | 184.8 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 3.873 | | 2.293 | | 153.7 | | 3.297 | | 3.143 | |
| February | 3.895 | | 2.307 | | 154.5 | | 3.323 | | 3.168 | |
| March | 3.924 | | 2.319 | | 157.1 | | 3.341 | | 3.190 | |
| April | 3.940 | 3.996 | 2.334 | 2.394 | 139.6 | 89.5 | 3.346 | 3.352 | 3.206 | 3.263 |
| May | 3.958 | 4.014 | 2.342 | 2.407 | 133.5 | 152.4 | 3.352 | 3.434 | 3.219 | 3.282 |
| June | 3.976 | 4.042 | 2.350 | 2.425 | 127.3 | 149.8 | 3.359 | 3.463 | 3.232 | 3.313 |
| July | 3.993 | 4.064* | 2.364 | 2.435* | 125.4 | 155.4* | 3.379 | 3.484* | 3.254 | 3.329* |
| August | 4.009 | 4.090 | 2.379 | 2.448 | 123.1 | 162.2 | 3.398 | 3.508 | 3.275 | 3.345 |
| September | 4.025 | 4.115 | 2.395 | 2.462 | 122.9 | 166.4 | 3.418 | 3.529 | 3.295 | 3.363 |
| October | 4.043 | 4.140 | 2.403 | 2.475 | 125.3 | 178.3 | 3.429 | 3.550 | 3.304 | 3.372 |
| November | 4.061 | 4.163 | 2.406 | 2.487 | 128.3 | 175.0 | 3.442 | 3.569 | 3.314 | 3.394 |
| December | 4.079 | 4.183 | 2.410 | 2.497 | 131.4 | 170.2 | 3.455 | 3.585 | 3.324 | 3.415 |
| January 1989 | 4.098 | 4.197 | 2.425 | 2.507 | 146.7 | 170.1 | 3.497 | 3.607 | 3.350 | 3.437 |
| February | 4.120 | 4.224 | 2.440 | 2.523 | 147.6 | 178.0 | 3.514 | 3.632 | 3.366 | 3.454 |
| March | 4.142 | 4.247 | 2.454 | 2.535 | 148.4 | 181.6 | 3.529 | 3.651 | 3.381 | 3.469 |
| April | 4.159 | 4.269 | 2.464 | 2.547 | 140.6 | 178.2 | 3.541 | 3.668 | 3.400 | 3.490 |
| May | 4.175 | 4.293 | 2.475 | 2.560 | 134.7 | 183.5 | 3.553 | 3.689 | 3.418 | 3.506 |
| June | 4.192 | 4.314 | 2.485 | 2.572 | 129.4 | 181.5 | 3.564 | 3.707 | 3.435 | 3.526 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 3045.3 | | 419.7 | | 992.0 | | 1633.6 | | 2513.5 | |
| February | 3069.5 | | 428.9 | | 990.0 | | 1650.6 | | 2532.9 | |
| March | 3091.3 | | 428.6 | | 999.8 | | 1662.8 | | 2538.1 | |
| April | 3104.7 | 3164.2 | 425.4 | 442.3 | 1006.4 | 1025.7 | 1672.9 | 1696.2 | 2536.5 | 2565.9 |
| May | 3118.6 | 3182.7 | 426.3 | 445.0 | 1008.6 | 1030.3 | 1683.7 | 1707.5 | 2533.4 | 2569.7 |
| June | 3132.5 | 3213.5 | 427.2 | 453.6 | 1010.9 | 1034.8 | 1694.4 | 1725.2 | 2530.3 | 2587.1 |
| July | 3152.0 | 3228.6* | 430.6 | 453.1* | 1016.6 | 1039.2* | 1704.8 | 1736.3* | 2539.9 | 2588.8* |
| August | 3177.2 | 3244.8 | 439.4 | 456.7 | 1022.3 | 1043.6 | 1715.5 | 1744.5 | 2558.1 | 2594.0 |
| September | 3192.1 | 3261.6 | 440.4 | 457.8 | 1025.6 | 1047.1 | 1726.1 | 1756.7 | 2566.0 | 2597.1 |
| October | 3190.9 | 3270.2 | 423.6 | 449.6 | 1030.5 | 1052.3 | 1736.8 | 1768.3 | 2552.7 | 2593.0 |
| November | 3211.6 | 3291.9 | 427.3 | 454.9 | 1036.6 | 1059.1 | 1747.7 | 1777.9 | 2552.9 | 2600.0 |
| December | 3231.8 | 3312.2 | 431.0 | 456.7 | 1042.3 | 1064.9 | 1758.5 | 1790.6 | 2554.8 | 2603.2 |
| January 1989 | 3247.4 | 3333.8 | 431.9 | 461.3 | 1045.6 | 1070.2 | 1769.9 | 1802.3 | 2559.0 | 2608.0 |
| February | 3263.0 | 3350.3 | 432.7 | 460.4 | 1049.3 | 1077.1 | 1781.0 | 1812.8 | 2565.3 | 2610.4 |
| March | 3277.2 | 3365.1 | 432.0 | 459.9 | 1053.0 | 1080.7 | 1792.2 | 1824.5 | 2570.4 | 2611.3 |
| April | 3295.3 | 3385.0 | 433.0 | 463.7 | 1058.5 | 1085.1 | 1803.8 | 1836.2 | 2572.4 | 2617.0 |
| May | 3313.1 | 3400.2 | 434.1 | 462.5 | 1063.1 | 1089.7 | 1815.9 | 1848.0 | 2572.3 | 2618.8 |
| June | 3329.4 | 3419.7 | 433.7 | 463.8 | 1067.7 | 1096.2 | 1828.0 | 1859.7 | 2571.0 | 2624.0 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 128.77 | 128.77 | 19.75 | 19.75 | 10.4 | 10.4 | 80.08 | 80.08 | 28.94 | 28.94 |
| February | 130.12 | 130.12 | 20.19 | 20.19 | 11.0 | 11.0 | 80.41 | 80.41 | 29.52 | 29.52 |
| March | 132.40 | 132.26 | 20.54 | 20.59 | 10.7 | 10.7 | 81.83 | 81.78 | 30.04 | 29.90 |
| April | 131.58 | 131.72 | 20.53 | 20.85 | 10.5 | 10.5 | 81.33 | 81.30 | 29.72 | 29.57 |
| May | 132.01 | 132.05 | 20.79 | 20.95 | 10.0 | 10.3 | 81.96 | 81.77 | 29.26 | 29.33 |
| June | 132.59 | 132.77 | 21.01 | 20.85 | 10.1 | 10.6 | 82.24 | 82.23 | 29.34 | 29.69 |
| July | 133.64 | 133.06* | 21.23 | 20.92* | 10.2 | 10.4* | 82.89 | 82.58* | 29.52 | 29.56* |
| August | 134.91 | 133.82 | 21.20 | 20.96 | 10.5 | 10.6 | 83.35 | 82.93 | 30.36 | 29.93 |
| September | 135.53 | 134.22 | 20.75 | 20.87 | 10.8 | 10.6 | 83.62 | 83.21 | 31.16 | 30.14 |
| October | 134.04 | 133.71 | 20.64 | 20.93 | 9.9 | 9.8 | 84.02 | 83.62 | 29.38 | 29.16 |
| November | 134.88 | 134.85 | 20.80 | 21.04 | 10.0 | 10.0 | 84.52 | 84.16 | 29.56 | 29.65 |
| December | 135.78 | 135.51 | 21.07 | 21.01 | 10.0 | 10.1 | 84.98 | 84.62 | 29.73 | 29.88 |
| January 1989 | 136.16 | 136.44 | 20.95 | 20.97 | 10.1 | 10.3 | 85.25 | 85.04 | 29.96 | 30.43 |
| February | 136.56 | 136.89 | 20.81 | 21.06 | 10.2 | 10.2 | 85.56 | 85.59 | 30.19 | 30.24 |
| March | 136.78 | 137.12 | 20.62 | 21.15 | 10.2 | 10.1 | 85.86 | 85.88 | 30.30 | 30.09 |
| April | 137.05 | 137.89 | 20.76 | 21.23 | 10.0 | 10.2 | 86.31 | 86.23 | 29.98 | 30.43 |
| May | 137.64 | 138.12 | 20.84 | 21.20 | 10.0 | 10.1 | 86.68 | 86.59 | 30.12 | 30.33 |
| June | 137.38 | 138.79 | 20.89 | 21.28 | 9.6 | 10.1 | 87.06 | 87.11 | 29.43 | 30.40 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 1.382 | 1.382 | 1.016 | 1.016 | 1.257 | 1.248 | 394.5 | 395.3 | 345.2 | 343.9 |
| February | 1.519 | 1.519 | 1.102 | 1.102 | 1.422 | 1.429 | 396.0 | 392.5 | 345.2 | 339.3 |
| March | 1.554 | 1.529 | 1.176 | 1.172 | 1.476 | 1.476 | 401.8 | 403.6 | 349.5 | 347.6 |
| April | 1.561 | 1.584 | 1.095 | 1.093 | 1.416 | 1.449 | 402.7 | 402.7 | 349.0 | 348.2 |
| May | 1.568 | 1.384 | 1.128 | 0.996 | 1.426 | 1.436 | 404.1 | 407.1 | 349.3 | 350.2 |
| June | 1.553 | 1.454 | 1.139 | 1.098 | 1.407 | 1.489 | 406.3 | 408.5* | 349.9 | 350.6* |
| July | 1.521 | 1.526* | 1.108 | 1.105* | 1.386 | 1.443* | 408.5 | 406.1 | 350.9 | 347.4 |
| August | 1.496 | 1.536 | 1.102 | 1.093 | 1.372 | 1.449 | 410.5 | 409.9 | 351.8 | 349.4 |
| September | 1.492 | 1.488 | 1.095 | 1.067 | 1.389 | 1.426 | 412.3 | 409.9 | 352.1 | 348.9 |
| October | 1.496 | 1.469 | 1.086 | 1.052 | 1.406 | 1.402 | 411.1 | 409.7 | 350.2 | 347.8 |
| November | 1.503 | 1.457 | 1.083 | 1.026 | 1.389 | 1.385 | 409.9 | 408.5 | 348.3 | 345.0 |
| December | 1.502 | 1.438 | 1.079 | 1.005 | 1.401 | 1.364 | 408.9 | 408.2 | 346.2 | 344.8 |
| January 1989 | 1.478 | 1.434 | 1.067 | 0.993 | 1.375 | 1.329 | 410.1 | 408.3 | 346.1 | 344.0 |
| February | 1.465 | 1.436 | 1.053 | 0.990 | 1.364 | 1.335 | 411.2 | 409.1 | 345.8 | 343.8 |
| March | 1.452 | 1.427 | 1.050 | 0.998 | 1.348 | 1.346 | 412.2 | 409.9 | 345.5 | 343.3 |
| April | 1.448 | 1.437 | 1.036 | 1.008 | 1.326 | 1.349 | 411.8 | 410.4 | 344.0 | 342.9 |
| May | 1.446 | 1.471 | 1.029 | 1.024 | 1.329 | 1.388 | 411.8 | 413.3 | 342.6 | 344.1 |
| June | 1.442 | 1.476 | 1.021 | 1.028 | 1.322 | 1.392 | 412.1 | 415.1 | 341.4 | 344.5 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 127.2 | 126.3 | 75.3 | 73.7 | 192.0 | 195.2 |
| February | 128.0 | 125.7 | 78.1 | 74.7 | 189.9 | 192.1 |
| March | 128.1 | 128.7 | 82.3 | 79.3 | 191.4 | 195.6 |
| April | 128.3 | 128.3 | 80.6 | 79.1 | 193.8 | 195.3 |
| May | 128.6 | 134.8 | 80.0 | 78.9 | 195.5 | 193.4 |
| June | 128.8 | 135.9* | 80.3 | 79.4* | 197.2 | 193.2* |
| July | 128.5 | 133.7 | 80.5 | 80.1 | 199.5 | 192.3 |
| August | 128.9 | 132.8 | 80.9 | 80.0 | 200.7 | 197.1 |
| September | 129.2 | 131.5 | 81.3 | 80.6 | 201.8 | 197.8 |
| October | 129.0 | 131.7 | 81.6 | 81.1 | 200.5 | 196.9 |
| November | 128.8 | 132.0 | 81.9 | 81.5 | 199.2 | 195.0 |
| December | 128.9 | 131.6 | 82.1 | 81.8 | 197.9 | 194.8 |
| January 1989 | 129.0 | 131.8 | 82.5 | 82.3 | 198.6 | 194.2 |
| February | 129.1 | 132.1 | 82.9 | 82.7 | 199.2 | 194.3 |
| March | 129.2 | 132.4 | 83.3 | 82.5 | 199.7 | 195.0 |
| April | 129.4 | 131.8 | 83.5 | 83.0 | 198.9 | 195.6 |
| May | 129.7 | 131.9 | 83.8 | 83.6 | 198.3 | 197.8 |
| June | 130.0 | 132.0 | 84.1 | 83.9 | 198.0 | 199.2 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 336.8 | 336.8 | 114.20 | 114.20 | 34.79 | 34.79 | 30.65 | 30.65 |
| February | 338.4 | 338.6 | 114.26 | 114.32 | 33.75 | 33.76 | 30.71 | 30.72 |
| March | 339.4 | 339.5 | 115.31 | 115.25 | 32.46 | 32.48 | 31.69 | 31.71 |
| April | 340.9 | 340.9 | 116.28 | 117.27 | 32.90 | 33.49 | 30.90 | 31.07 |
| May | 342.8 | 343.1 | 117.43 | 115.10 | 33.55 | 31.50 | 31.26 | 31.76 |
| June | 345.0 | 344.9* | 114.39 | 125.23 | 32.16 | 34.57 | 31.75 | 31.98 |
| July | 345.9 | 346.4 | 114.62 | 118.29* | 32.49 | 31.86* | 32.39 | 32.07* |
| August | 346.8 | 347.9 | 116.21 | 117.86 | 33.31 | 31.55 | 32.71 | 31.88 |
| September | 347.7 | 349.4 | 115.05 | 117.53 | 32.75 | 31.84 | 33.04 | 31.95 |
| October | 349.8 | 350.8 | 114.85 | 118.14 | 32.93 | 32.27 | 32.83 | 32.20 |
| November | 351.9 | 352.2 | 114.37 | 116.91 | 32.86 | 31.63 | 32.95 | 31.97 |
| December | 354.0 | 353.8 | 116.27 | 115.86 | 33.14 | 31.45 | 32.90 | 31.86 |
| January 1989 | 355.8 | 355.2 | 116.63 | 115.95 | 33.20 | 31.69 | 33.14 | 31.89 |
| February | 357.4 | 357.0 | 115.08 | 116.28 | 32.86 | 32.28 | 33.22 | 32.11 |
| March | 359.0 | 358.6 | 114.82 | 116.63 | 32.53 | 32.53 | 32.85 | 32.28 |
| April | 360.8 | 360.2 | 115.06 | 116.42 | 33.16 | 32.40 | 33.14 | 32.44 |
| May | 362.9 | 361.9 | 114.43 | 116.27 | 31.84 | 32.51 | 32.27 | 32.53 |
| June | 365.0 | 363.5 | 115.95 | 116.64 | 32.14 | 32.64 | 32.06 | 32.65 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 715.0 | 715.0 | 8.43 | 8.43 | 134.4 | 134.4 | 82.5 | 82.5 |
| February | 717.9 | 717.9 | 8.50 | 8.50 | 134.4 | 134.4 | 82.4 | 82.4 |
| March | 720.0 | 720.1 | 9.52 | 9.50 | 134.7 | 134.7 | 82.4 | 82.4 |
| April | 723.5 | 723.7 | 8.58 | 8.47 | 135.6 | 135.4 | 82.7 | 82.6 |
| May | 726.4 | 728.4 | 8.50 | 8.37 | 135.9 | 136.1 | 82.8 | 82.9 |
| June | 729.4 | 732.0* | 8.58 | 9.07 | 136.2 | 136.6 | 82.8 | 83.1 |
| July | 732.3 | 735.9 | 8.46 | 8.94* | 136.5 | 137.0* | 82.9 | 83.2* |
| August | 734.5 | 740.1 | 8.54 | 8.86 | 136.8 | 137.4 | 82.9 | 83.3 |
| September | 736.7 | 743.8 | 8.63 | 8.97 | 137.1 | 137.8 | 83.0 | 83.5 |
| October | 740.8 | 747.9 | 8.60 | 9.05 | 137.2 | 138.1 | 82.9 | 83.5 |
| November | 745.8 | 751.3 | 8.77 | 9.21 | 137.0 | 138.4 | 82.7 | 83.6 |
| December | 750.6 | 754.9 | 8.95 | 9.20 | 137.0 | 138.5 | 82.6 | 83.5 |
| January 1989 | 753.4 | 757.9 | 9.00 | 9.17 | 136.9 | 138.7 | 82.4 | 83.4 |
| February | 756.4 | 760.8 | 9.01 | 9.15 | 137.0 | 139.0 | 82.3 | 83.4 |
| March | 759.3 | 765.2 | 9.00 | 9.11 | 137.0 | 139.3 | 82.2 | 83.5 |
| April | 762.9 | 768.6 | 9.13 | 9.07 | 135.5 | 139.4 | 81.2 | 83.4 |
| May | 766.3 | 772.2 | 9.25 | 9.14 | 135.0 | 139.7 | 80.8 | 83.4 |
| June | 769.7 | 775.9 | 9.38 | 9.23 | 134.5 | 140.0 | 80.3 | 83.4 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 115.9 | 115.9 | 106.1 | 106.1 | 104.3 | 104.4 | 119.1 | 119.3 |
| February | 116.1 | 116.1 | 105.9 | 105.9 | 104.4 | 104.4 | 119.4 | 119.5 |
| March | 116.7 | 116.7 | 106.5 | 106.5 | 104.7 | 104.7 | 119.6 | 119.5 |
| April | 117.2 | 117.2 | 107.0 | 107.0 | 105.6 | 105.6 | 120.1 | 120.1 |
| May | 117.8 | 117.5 | 107.5 | 107.4 | 105.9 | 106.1 | 120.7 | 120.6 |
| June | 118.3 | 117.9 | 107.9 | 107.8 | 105.9 | 106.5 | 121.2 | 120.9 |
| July | 118.7 | 118.3* | 108.2 | 107.9* | 106.8 | 106.2* | 121.5 | 121.4 |
| August | 119.1 | 118.7 | 108.4 | 108.2 | 107.5 | 106.7 | 121.8 | 121.8 |
| September | 119.5 | 119.1 | 108.6 | 108.5 | 106.4 | 105.2 | 122.1 | 122.2 |
| October | 120.0 | 119.6 | 108.9 | 108.9 | 107.8 | 107.4 | 122.5 | 122.7 |
| November | 120.5 | 120.1 | 109.3 | 109.3 | 108.0 | 107.8 | 122.8 | 123.2 |
| December | 121.0 | 120.7 | 109.8 | 109.4 | 108.1 | 108.3 | 123.2 | 123.7 |
| January 1989 | 121.4 | 121.3 | 110.2 | 109.9 | 108.6 | 108.8 | 123.7 | 124.2 |
| February | 121.8 | 121.8 | 110.5 | 110.3 | 109.1 | 109.5 | 124.1 | 124.6 |
| March | 122.2 | 122.3 | 110.8 | 110.7 | 109.5 | 110.1 | 124.5 | 125.1 |
| April | 122.8 | 122.8 | 111.4 | 111.1 | 110.1 | 110.5 | 125.0 | 125.5 |
| May | 123.4 | 123.4 | 112.0 | 111.7 | 110.8 | 110.9 | 125.5 | 125.9 |
| June | 124.0 | 124.0 | 112.5 | 112.2 | 111.5 | 111.5 | 125.9 | 126.3 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 121.1 | | 107.4 | | 113.4 | | 130.7 | | 114.3 | 114.9 |
| February | 121.2 | | 107.4 | | 113.3 | | 131.1 | | 114.7 | 115.7 |
| March | 121.8 | | 107.5 | | 114.2 | | 131.6 | | 115.0 | 116.1 |
| April | 122.4 | 123.3 | 107.9 | 109.3 | 115.2 | 115.5 | 132.2 | 133.3 | 115.4 | 115.6 |
| May | 123.1 | 123.9 | 108.1 | 109.4 | 115.7 | 116.1 | 132.8 | 133.8 | 115.7 | 116.2 |
| June | 123.8 | 124.2 | 108.3 | 109.9 | 116.1 | 116.4 | 133.4 | 134.3 | 116.1 | 116.5* |
| July | 124.1 | 124.7* | 108.8 | 110.2* | 116.3 | 116.7* | 133.9 | 134.9* | 116.4 | 116.9 |
| August | 124.2 | 125.1 | 109.2 | 110.4 | 116.5 | 117.0 | 134.4 | 135.4 | 116.7 | 117.3 |
| September | 124.4 | 125.6 | 109.0 | 110.7 | 116.6 | 117.4 | 135.0 | 136.0 | 117.1 | 117.5 |
| October | 125.0 | 126.1 | 109.3 | 111.0 | 117.3 | 117.9 | 135.5 | 136.5 | 117.4 | 117.8 |
| November | 125.8 | 126.6 | 109.2 | 111.3 | 118.1 | 118.4 | 136.0 | 137.1 | 117.7 | 118.1 |
| December | 126.5 | 127.2 | 109.4 | 111.7 | 118.8 | 119.0 | 136.6 | 137.8 | 118.1 | 118.4 |
| January 1989 | 126.9 | 127.8 | 109.6 | 112.0 | 119.2 | 119.6 | 137.2 | 138.5 | 118.5 | 118.7 |
| February | 127.2 | 128.3 | 109.9 | 112.2 | 119.5 | 120.1 | 137.7 | 139.1 | 118.9 | 119.0 |
| March | 127.5 | 128.9 | 110.2 | 112.4 | 119.9 | 120.6 | 138.3 | 139.7 | 119.3 | 119.4 |
| April | 128.1 | 129.3 | 110.4 | 112.5 | 120.6 | 121.1 | 138.9 | 140.3 | 119.7 | 119.7 |
| May | 128.8 | 129.8 | 110.6 | 112.7 | 121.0 | 121.5 | 139.5 | 140.9 | 120.1 | 120.1 |
| June | 129.5 | 130.3 | 110.9 | 113.0 | 121.4 | 121.9 | 140.1 | 141.5 | 120.5 | 120.5 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | -12.44 | -12.44 | 188.9 | 190.0 | 4638 | 4708 | 3894 | 3946 | -17.8 | -17.8 |
| February | -13.82 | -13.82 | 191.8 | 191.5 | 4660 | 4725 | 3903 | 3954 | -16.5 | -17.4 |
| March | -13.14 | -9.75 | 193.3 | 191.8 | 4685 | 4743 | 3917 | 3969 | -16.4 | -16.9 |
| April | -13.06 | -10.27 | 194.5 | 192.8 | 4710 | 4778 | 3922 | 3979 | -19.6 | -18.3 |
| May | -12.77 | -10.93 | 194.2 | 192.6 | 4740 | 4806 | 3927 | 3985 | -22.3 | -19.6 |
| June | -12.49 | -10.10* | 194.5 | 194.9 | 4769 | 4830 | 3935 | 3995 | -22.6 | - |
| July | -14.23 | -10.76 | 194.8 | 194.2 | 4793 | 4859 | 3945 | 4002 | -23.4 | - |
| August | -14.02 | -11.23 | 194.5 | 193.9 | 4814 | 4891 | 3952 | 4016 | -22.8 | - |
| September | -12.82 | -11.48 | 194.1 | 194.4 | 4835 | 4910 | 3960 | 4018 | -22.1 | - |
| October | -13.34 | -11.06 | 194.6 | 194.2 | 4852 | 4935 | 3961 | 4022 | -21.4 | - |
| November | -12.95 | -10.92 | 195.3 | 194.0 | 4870 | 4960 | 3966 | 4026 | -20.1 | - |
| December | -12.56 | -10.86 | 195.6 | 194.7 | 4887 | 4987 | 3967 | 4032 | -18.8 | - |
| January 1989 | -12.65 | -10.95 | 195.4 | 195.2 | 4909 | 5015 | 3968 | 4038 | -18.5 | - |
| February | -12.32 | -10.76 | 195.3 | 195.1 | 4936 | 5038 | 3977 | 4043 | -19.0 | - |
| March | -11.97 | -10.43 | 195.7 | 195.0 | 4963 | 5061 | 3986 | 4046 | -18.4 | - |
| April | -12.17 | -9.85 | 195.0 | 195.2 | 4982 | 5083 | 3986 | 4050 | -23.9 | - |
| May | -11.98 | -9.89 | 194.6 | 195.5 | 5000 | 5105 | 3984 | 4055 | -29.6 | - |
| June | -11.79 | -9.64 | 194.2 | 195.6 | 5018 | 5130 | 3986 | 4062 | -28.7 | - |

| | Trade Index | | Adjusted Profits | | 30-Year Government Bonds | | New York Composite | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore | C.E. | Fore. | C.E. |
| January 1988 | 89.18 | 89.18 | 168.3 | 170.4 | 8.83 | 8.83 | 140.55 | 140.55 |
| February | 91.09 | 91.09 | 171.5 | 174.2 | 8.43 | 8.43 | 145.13 | 145.13 |
| March | 89.73 | 89.73 | 172.6 | 176.2 | 8.63 | 8.63 | 149.88 | 149.88 |
| April | 88.95 | 88.95 | 169.3 | 181.4 | 8.95 | 8.95 | 148.46 | 148.46 |
| May | 89.43 | 89.74 | 168.0 | 180.9 | 9.23 | 9.23 | 147.79 | 144.99 |
| June | 91.02 | 92.58 | 168.8 | 182.5* | 9.16 | 9.00 | 149.76 | 152.72 |
| July | 90.14 | 95.64* | 168.3 | | 9.37 | 9.23 | 152.45 | 150.65* |
| August | 89.51 | 97.24 | 168.0 | | 9.49 | 9.35 | 155.93 | 154.43 |
| September | 88.25 | 95.63 | 168.3 | | 9.43 | 9.26 | 154.40 | 153.67 |
| October | 87.43 | 94.18 | 167.8 | | 9.65 | 9.47 | 148.26 | 151.26 |
| November | 86.84 | 91.22 | 167.5 | | 9.86 | 9.88 | 147.51 | 147.43 |
| December | 86.13 | 89.46 | 167.2 | | 10.04 | 10.03 | 146.78 | 145.56 |
| January 1989 | 86.42 | 90.17 | 169.4 | | 10.02 | 10.12 | 144.23 | 142.56 |
| February | 85.36 | 89.43 | 169.8 | | 9.82 | 10.21 | 146.85 | 145.84 |
| March | 84.28 | 87.62 | 167.8 | | 9.76 | 9.85 | 142.78 | 149.53 |
| April | 84.39 | 87.55 | 163.4 | | 9.54 | 9.81 | 136.43 | 145.27 |
| May | 85.53 | 87.12 | 159.7 | | 9.47 | 9.65 | 139.75 | 146.63 |
| June | 84.48 | 87.43 | 156.0 | | 9.45 | 9.60 | 140.58 | 146.35 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 271.3 | 271.3 | 758.9 | 758.9 | 2924.9 | 2925.0 | 6.83 | 6.83 | 6.25 | 6.25 |
| February | 272.0 | 272.1 | 759.6 | 759.6 | 2946.1 | 2946.0 | 6.58 | 6.58 | 5.96 | 5.96 |
| March | 272.5 | 272.8 | 763.1 | 763.1 | 2967.7 | 2967.5 | 6.58 | 6.58 | 5.91 | 5.91 |
| April | 275.2 | 275.8 | 770.2 | 770.2 | 2992.3 | 2991.9 | 6.87 | 6.87 | 6.21 | 6.21 |
| May | 278.0 | 276.7 | 771.3 | 770.1 | 3012.6 | 3003.7 | 6.98 | 7.09 | 6.28 | 6.56 |
| June | 280.8 | 277.8 | 772.5 | 776.4 | 3032.8 | 3018.1 | 7.09 | 7.51 | 6.35 | 6.71 |
| July | 282.3 | 280.8* | 778.9 | 783.5* | 3050.6 | 3028.9* | 7.10 | 7.64 | 6.39 | 7.05 |
| August | 283.6 | 282.5 | 785.0 | 790.6 | 3069.7 | 3046.3 | 7.05 | 7.83 | 6.35 | 7.23 |
| September | 285.0 | 283.9 | 791.2 | 793.5 | 3088.8 | 3063.5 | 7.11 | 8.05 | 6.40 | 7.35 |
| October | 286.8 | 285.1 | 793.7 | 795.4 | 3100.2 | 3080.1 | 7.20 | 8.26 | 6.56 | 7.38 |
| November | 288.2 | 286.9 | 794.3 | 800.5 | 3111.8 | 3099.8 | 7.43 | 8.49 | 6.75 | 7.52 |
| December | 289.6 | 288.4 | 795.1 | 803.5 | 3123.4 | 3116.4 | 7.45 | 8.56 | 6.79 | 7.47 |
| January 1989 | 291.3 | 290.1 | 803.6 | 809.1 | 3142.6 | 3136.1 | 7.26 | 8.53 | 6.53 | 7.40 |
| February | 292.6 | 291.7 | 811.6 | 815.3 | 3159.7 | 3155.1 | 7.15 | 8.45 | 6.45 | 7.21 |
| March | 294.0 | 293.3 | 819.5 | 820.7 | 3176.3 | 3175.8 | 7.08 | 8.31 | 6.41 | 7.15 |
| April | 295.7 | 295.8 | 824.6 | 828.2 | 3191.5 | 3200.8 | 7.05 | 8.26 | 6.25 | 7.09 |
| May | 296.9 | 296.9 | 829.2 | 832.8 | 3209.7 | 3218.6 | 6.94 | 8.15 | 6.19 | 7.11 |
| June | 298.1 | 298.3 | 833.9 | 838.2 | 3227.8 | 3239.5 | 6.83 | 8.07 | 6.13 | 6.95 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| January 1988 | 9.88 | 9.88 | 7.69 | 7.69 | 6.87 | 6.87 | 6.92 | 6.92 | 8.75 | 8.75 |
| February | 9.40 | 9.40 | 7.49 | 7.49 | 6.58 | 6.58 | 6.60 | 6.60 | 8.51 | 8.51 |
| March | 9.39 | 9.39 | 7.74 | 7.74 | 6.62 | 6.62 | 6.63 | 6.63 | 8.50 | 8.50 |
| April | 9.67 | 9.67 | 7.81 | 7.81 | 6.86 | 6.86 | 6.92 | 6.92 | 8.50 | 8.50 |
| May | 9.78 | 9.90 | 7.90 | 7.91 | 7.03 | 7.19 | 7.09 | 7.24 | 8.89 | 8.84 |
| June | 9.89 | 9.86 | 7.95 | 7.78 | 7.15 | 7.49 | 7.22 | 7.51 | 9.00 | 9.00 |
| July | 10.05 | 10.02 | 8.09 | 7.77 | 7.22 | 7.76* | 7.29 | 7.86 | 9.00 | 9.42 |
| August | 10.08 | 10.15 | 8.11 | 7.89 | 7.16 | 7.96 | 7.23 | 8.05 | 9.00 | 9.50 |
| September | 10.12 | 10.07 | 8.16 | 7.85 | 7.20 | 8.09 | 7.28 | 8.21 | 9.00 | 9.76 |
| October | 10.20 | 10.28 | 8.23 | 7.97 | 7.27 | 8.15 | 7.35 | 8.26 | 9.00 | 10.00 |
| November | 10.26 | 10.56 | 8.30 | 8.26 | 7.50 | 8.23 | 7.62 | 8.30 | 9.36 | 10.00 |
| December | 10.32 | 10.74 | 8.36 | 8.49 | 7.43 | 8.42 | 7.51 | 8.51 | 9.50 | 10.00 |
| January 1989 | 10.20 | 10.85 | 8.31 | 8.53 | 7.18 | 8.50 | 7.26 | 8.59 | 9.50 | 10.23 |
| February | 10.05 | 10.90 | 8.09 | 8.65 | 7.10 | 8.46 | 7.17 | 8.55 | 9.50 | 10.29 |
| March | 9.88 | 10.73 | 7.90 | 8.50 | 7.02 | 8.24 | 7.11 | 8.37 | 9.50 | 10.00 |
| April | 9.93 | 10.65 | 7.94 | 8.46 | 6.96 | 8.17 | 6.99 | 8.28 | 9.28 | 10.00 |
| May | 9.86 | 10.47 | 7.87 | 8.39 | 6.93 | 8.11 | 6.98 | 8.23 | 9.25 | 10.00 |
| June | 9.79 | 10.40 | 7.78 | 8.30 | 6.78 | 8.05 | 6.87 | 8.16 | 9.25 | 10.00 |

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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# MONTHLY PROJECTIONS
## August 1988

Dr. Donald Ratajczak, Director
For Release: September 9, 1988

## WHAT STOPPED THE GROWTH TRAIN IN AUGUST?

Just as everyone was becoming convinced that the economy was overheating, the August employment report indicated that activity has stalled. While more data will be needed to confirm softness in industrial activity during the month, the employment report received support from the survey of purchasing managers and even from sensitive prices. Moreover, a spurt in initial unemployment claims during the latter part of July seems to pinpoint when industrial weakness developed. Now the question is why did this train stop and how long will it be stalled?

Some analysts believe that the weakness recorded in August is nothing more than shifting seasonal patterns. Prior to the recent wave of modernization in some of the labor-intensive apparel and textile industries, many firms used to shut down plants for firmwide vacations during July. A measured spurt in industrial production along with strong employment gains this July may have been because seasonal factors were anticipating such plant shutdowns. However, with increased capital intensity, running machines is preferable to idling them. Similarly, the traditional automobile model changeover during the summer has been dramatically reduced. Thus, seasonal factors are distorting economic activity during the summer. Initially, the seasonal forces overstated activity but they must then understate performance when the post-vacation surge does not materialize.

These shifting seasonal patterns probably are developing and textile employment did fall on a seasonally adjusted basis in August (a condition consistent with seasonal distortion interpretations). However, seasonal factors do not appear to account for a substantial drop in the workweek. Moreover, when seasonal distortions also surfaced last year, strength early in the summer was not reversed until September. This suggests that some of the August weakness may be other than distortions.

A second explanation for the stalled economy is the impact of Federal Reserve restraint. From March through August, the federal funds rate increased 1.5 percentage points. At the same time, M1 slowed to less than a 5% annual rate of growth. However, the monetary base continued to grow at a 7.5% annual rate over that period. Thus, portfolio shifts associated with rising short-term interest rates rather than substantial restraint upon growth in the monetary aggregates could have been responsible for slow monetary growth. In August, however, the Federal Reserve's discount rate move, followed by further tightening in the federal funds rate, probably reflects significant Federal Reserve restraint. However, August restraint by the Federal Reserve should not lead to August slowing in economic activity. The lags in response to changed monetary policy are longer than that. Nevertheless, the Federal Reserve definitely is showing restraint which will lead to further moderate growth in economic activity later this year.

A third explanation for the slowing in August is the "inherent dynamics" of the economy. Typically, this usually means a response to some economic excess, such as overbuilding or an inventory glut. Overbuilding certainly can be observed, but construction adjustments appear to be orderly at the present time. Moreover, construction expenditures rose in the latest reported month by 1.2%. However, construction contracts are beginning to fade rapidly.

No evidence of excess inventories is apparent. Automobile inventories, which periodically presented problems in the past two years, are no longer burdensome. In July, domestic sales were at 7.8 million units while domestic production was only 7.1 million at annual rates. Other inventories also appear to be in line with shipments or sales.

However, inventories abroad of exported goods may have increased. In the past four quarters, after adjustment for inflation, exports rose 20%. Clearly, American competitiveness improved over that time as a result of the dollar's fall, but such a surge of exports would imply a displacement of home goods by U.S. exports. Such displacement would imply that the U.S. was growing at the expense of the rest of the world. However, most indicators suggest that all industrial countries are growing rapidly. Although the evidence is indirect, this suggests that a significant portion of American exports are being held in warehouses abroad. The 2.4% decline in exports during June may have been the beginning of an adjustment to these excess inventories. If so, inventory adjustments probably will take a few more months. Thus, manufacturing activity could show little growth until fall data begin to be generated.

If a significant portion of this temporary weakness is the result of reduced export flows, trade deficits should begin rising again. This, in turn, should once again exert downward pressures upon the dollar's value. For that reason, the dollar should be trending lower through the remainder of this year.

Although dollar weakness eventually will increase inflationary pressures, the pause in industrial activity certainly stays the hand of the Federal Reserve. After all, there is a possibility that previous Federal Reserve restraint has contributed to current economic slowing. The Fed almost certainly will want to wait a little longer to see how much slowing will materialize before deciding whether any further tightening is needed. This insures minimal change in short-term interest rates until after the presidential elections.

Initially, the bond market may view stability in short-term rates as a sign that inflationary pressures are easing. Therefore, a significant rally in long-term bonds also is anticipated. However, interest rates should not fall significantly below 9% as measured by the yield on the thirty-year government bond. After November, the economic pause should end, while inflationary fears from a declining dollar should once again surface. At that time, the Federal Reserve probably will move toward further Federal Reserve restraint. In short, the pause probably has postponed rising inflation, but it has not reversed the inflationary pressures that have been gradually growing in the labor markets.

## Quarterly Profile of GNP

NOTE: After removing $9.6 billion at annual rates from measures of GNP in the second quarter, the drought is assumed to reduce GNP by $17 billion from where it otherwise would be in the third quarter and $32 billion in the fourth quarter. A return to normal crop production is expected in the first quarter of 1989, thereby raising that quarter's totals by $32 billion. As a result, growth rates are being reduced by 1.0% in 1988-2, 0.6% in 1988-3, and 1.4% in 1988-4. Economic growth then is enhanced by 3.2% in 1989-1. For annual averages, real growth is reduced by 0.4% in 1988 and enhanced by an equivalent amount in 1989.

| | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1989-2 | 1989-3 | 1988 Annual | 1989 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 3.3 | 2.6 | 1.8 | 4.7 | 1.4 | 1.8 | 3.9 | 2.7 |
| Price: | 5.1 | 4.4 | 4.3 | 4.6 | 6.2 | 5.1 | 3.2 | 5.0 |
| Nominal: | 8.3 | 7.1 | 6.2 | 9.5 | 7.7 | 7.0 | 7.2 | 7.9 |

## Monthly Statistical Highlights for August 1988

Personal income +0.7%; savings rate 4.4%; personal consumption +0.6%; retail sales +0.7%; auto sales 10.9 million units; housing starts -0.7%; housing permits -2.2%; construction expenditures -1.3%; business inventories +0.6%; orders for durable goods +0.7%; orders for nondefense capital goods -0.4%; industrial production -0.2%; CPI +0.5%; PPI +0.6%; consumption deflator +0.4%; leading indicators +0.1%; currency index +1.3%; equity index -0.7%; real GNP(AR) +1.2%; M1(AR) +0.3%; M2(AR) +1.9%.

## Monthly Statistical Highlights for September 1988

Payroll employment +258,000; index of hours worked +0.7%; household employment +383,000; civilian unemployment rate 5.4%; personal income +0.6%; savings rate 4.5%; personal consumption +0.4%; retail sales +0.3%; auto sales 10.9 million units; housing starts -1.3%; housing permits -1.0%; construction expenditures +0.3%; business inventories +0.6%; orders for durable goods +1.4%; orders for nondefense capital goods -4.0%; industrial production +0.1%; CPI +0.4%; PPI +0.4%; consumption deflator +0.4%; leading indicators +0.3%; currency index -2.3%; equity index +1.7%; real GNP(AR) +1.2%; M1(AR) +7.4%; M2(AR) +7.5%.

## Commentary

Employment - Following an unusually late employment survey last month, the employment survey was unusually early for August. As a result, the less than expected increase in payrolls could have been a result of the survey week. However, the increase in the unemployment rate as well as the sharp reduction in the workweek cannot be attributed to a survey problem. Here, however, seasonal fluctuations could have been a factor. Although the employment statistics clearly revealed sluggishness in August, previous upward revisions in June and stronger performance in July than anticipated when our forecast was created have merely brought third-quarter average employment conditions into conformity with forecast anticipations. If the workweek snaps back, as expected in September, activity in the third quarter still will exceed forecasted values.

However, two areas of the employment report were unusual. First, the labor force is growing more rapidly than had been anticipated. This appears to be the result of greater entrance by females than previously anticipated. Because the male unemployment rate rose sharply in August, it is possible that we are seeing spouse work search in an effort to preserve household incomes. This would suggest more permanency in the newly unemployed than had previously been observed in this cycle. Second, the hourly earnings index showed minimal change in August. This lessens concern about the inflationary impact from rising wage pressures.

Personal Income and Outlays - Wage and salary income spurted while farm income declined sharply in July. Further declines in farm income are not anticipated, as some settlements of drought insurance already have been dispersed. In addition, rising interest rates should lead to significant gains in personal interest income.

An anticipated spurt in tax liabilities did not develop. As a result, the growth of tax liabilities has been adjusted downward, although the reason for this discrepancy is not totally evident. Of course, this leads to greater growth in disposable income, which is expected to raise the savings rate from what had previously been anticipated.

Of course, higher disposable income also will raise outlays relative to the forecast. Unit auto sales have performed well in August, leading to a slight increase in durable goods outlays. Higher food and gasoline prices will be reflected in higher spending for nondurable goods. On the other hand, reduced purchases of financial services will continue to cause service expenditures to grow less than anticipated in the forecast.

Higher sticker prices on new automobiles should cause some slowing in sales as new model cars are introduced in October. Also, a return to more normal weather in September should reduce utility consumption. Thus, spending could slow significantly in that month and remain sluggish in October before rebounding in subsequent months.

Construction - Sales of single-family homes slumped nearly 5% in July. This was reflected in reduced permits in that month. However, a rebound in multi-family starts led to slightly higher housing activity. Multiple units probably will continue to perform near current levels next year. However, rising mortgage rates will continue to place a burden upon single-family sales. Thus, housing starts are expected to show a modest downward trend over the next few months.

On the other hand, no significant squeeze in housing activity currently is expected.

After a sharp downward revision in construction expenditures for May and June, expenditures jumped unexpectedly in July. Nevertheless, the total level of construction spending is far below forecasted values. This reduction in activity appears to be equally distributed between nonresidential and residential construction. Only public construction currently is performing above forecasted values. Some settling is expected in the public spending area next month. Despite overbuilding of office space, growth in nonresidential construction should continue as a result of strong industrial activity. On the other hand, orders measured by F.W. Dodge showed a 5% decline in July and are now down 3% for the year. This suggests a leveling of construction expenditures later this year followed by modest declines. Our projections differ slightly from this timing by incorporating weakness in the next few months and then showing a rebound as housing activity strengthens late next year.

Prices of construction goods jumped sharply in July and are now expected to grow more significantly than originally projected. Both land costs and material costs were responsible for the 0.5% increase in construction costs in July.

Business Activity - Orders for aircraft, tanks, and automobiles fell sharply in July. As a result, durable goods orders fell back to only slightly more than May levels. Except for the weakness in automobiles, there was no surprise in the orders report. Apparently, the automobile weakness reflects a desire to adjust inventories through reduced production rather than increased sales incentives in 1988. This strategy is succeeding in bringing automobile inventories into line with anticipated sales. As a result, no further dip in the automobile component of durable goods shipments and orders is anticipated next month. Moreover, military orders now are $1 billion below shipments. Therefore, a moderate rebound is anticipated. Surprisingly, nondefense capital goods orders showed no meaningful retrenchment. This could lead to stronger capital spending in the next few months than has been anticipated. However, shipments continue to lag dramatically behind orders.

Seasonal distortions probably caused the sharp surge in July industrial production. This probably is especially true in the 1% increase in production of industrial materials. In August, a reversal of some of those seasonals will lead to a dip in industrial activity. As a result, capacity utilization will decline, lessening fears of an overheated economy.

Although a rebound in industrial production is anticipated in September, a return to more seasonal weather will cause a significant decline in utility production. This explains the relatively sluggish performance anticipated for that month.

Prices - Is the drought being used as an excuse to raise prices across the board in the supermarket? Preliminary evidence suggests that the answer is yes. Food prices currently are rising faster than had been anticipated by the drought impact alone. This may necessitate an upward revision in our inflation estimates from that factor. However, energy prices, which rose in August, are now coming down. If OPEC continues its 20-million-barrel-per-day level, needs for the heating season will be completely met without any drawdown of inventories. As inventories already are excessive for current use worldwide, such an outcome would put significant downward pressures upon oil prices. We currently feel that oil prices will, in fact, firm in the winter following a very shaky fall. Nevertheless, it appears that oil prices could average slightly less in 1989 than the $16.50 per barrel projected for 1988.

An acceleration in the GNP deflator despite minimal adjustments in the fixed weighted indices is the result of composition shifts and improving terms of trade. The terms of trade improvement is largely the result of the drought, although it is also partially from recent strengthening in the dollar. As this strengthening is not expected to persist, the relative surge in the GNP deflator should diminish, but not until the second half of 1989.

Miscellaneous - While a dip in the leading indicators during July was not a surprise, the fact that seven of the nine reported indicators were down was a bit more widespread than merely an adjustment of unsustainable orders. Indeed, if June is viewed as the atypical month, the leading indicators are showing no improvement. Sluggish growth in the money stock relative to consumer prices along with an anticipated dip in stock prices will continue to restrain any expansion in the leading indicators. However, a rebound in the workweek in September should create a momentary strengthening of the index.

Although the argument about accumulating inventories abroad is compelling and would suggest that net exports could deteriorate, our current projections on merchandise trade balances have only partially adjusted for this. Thus, our trade balances could deteriorate more than currently anticipated. If so, the currency index could fall more sharply than originally projected. Indeed, it appears that the recent dollar surge was only temporary.

## FINANCIAL MARKETS

Despite robust automobile sales, the household sector appears to be trying to increase savings. At the same time, rising mortgage rates are beginning to reduce net additions to mortgage debt by the household sector. If this savings trend continues, the household sector will be an increasing net contributor to credit markets in the months ahead.

A sluggish economy probably will add to the government deficit. However, the economy is not that sluggish. Indeed, when the consolidated federal deficit is combined with state and local surpluses, government debt as a share of GNP actually declines by 0.5 percentage points in the next twelve months. Thus, government borrowings are no longer a factor leading to upward pressures upon interest rates. No new administration initiatives are anticipated to alter this improving debt position through the first half of 1989.

Corporate profits were much stronger than anticipated in the second quarter and may also be stronger than expected in the summer months. Since the inventory adjustment is occurring abroad, this will not have a dramatic impact upon domestic borrowings. Indeed, nonfarm inventories probably are gradually increasing. Strong capital spending programs also suggest that corporations will need to borrow more in the second half than earlier in the year. Nevertheless, when the household, government, and corporate factors are combined, a strong case develops for little movement in interest rates either up or down.

Thus, the current direction in the bond market appears to be more heavily dependent upon sentiment of foreign investors than normal. As the dollar rallies, foreign investors favor American assets. Interest rate differentials greatly support dollar-based investments if the dollar maintains its current values. However, if the dollar reverses direction, as anticipated here, foreign investors soon will seek alternatives to dollar-based assets. However, the obviously overvalued Japanese equity markets do not provide the alternatives they did a year ago. For this reason, foreign investors may only grudgingly withdraw from American assets under current interest rate differentials even after the dollar resumes its decline. Nevertheless, that should be sufficient to raise interest rates modestly for the remainder of this year and early into next year.

Also, the Federal Reserve probably will again exert its restraint when industrial growth resumes in the fall. Inflationary pressures still appear to be intensifying, despite the significant decline in oil prices. Indeed, a Federal Reserve-induced inversion of the yield curve is possible early in 1989. However, unlike previous inversions, where short-rates rose more rapidly than long-rates, it is possible that this inversion could occur with long-term rates declining as short-term rates rally. This would occur as investors anticipate that an increase in short-term interest rates will slow economic activity.

Equity Markets - Once again, our equity forecasts appear to be anomalous with other adjustments. Because of stronger profit gains in the second quarter than had been anticipated, adjusted profits appear to be stronger than contained in the forecast. At the same time, long-term interest rates, while rising, are not expected to rise as rapidly as previously projected. Normally, these adjustments should lead to higher equity values than originally projected.

However, the gradual withdrawal of foreign investors and a slightly overvalued condition for the equity markets according to prevailing second-quarter profits and interest rates combine to lead to only a modest upward revision in equity values. Indeed, Federal Reserve restraint could lead to a significant decline in stock market prices during the fall.

On the other hand, there are no signs of a new crash in equity values.

Purchases of interest-sensitive securities probably is still are premature. However, the risks according to our forecasts are relatively modest. Indeed, some utilities probably are good buys at the present time.

Strong capital spending programs into 1989 indicate that the capital goods sectors should perform well. Also, some producers of industrial materials, such as paper, rubber, chemicals, plastics, and metals all should continue to perform adequately, if not slightly better, than the overall market. However, fears of a recession later in 1989 could reduce the attractiveness of those issues by that time.

Obviously, export-oriented companies should be avoided at this time. In addition, the blue chip companies probably will underperform the economy, as they normally are the issues that foreign investors hold in their portfolios. Our current projections suggest that the Dow Jones will break below the 2000 level before the end of this year and possibly could test the 1740 lows established last October. However, such a test would be successful and the equity markets would then be able to move upward.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 105281 | 105281 | 125.1 | 125.1 | 114713 | 114713 | 5.4 | 5.4 | 178.0 | 178.0 |
| May | 105502 | 105489 | 124.4 | 124.4 | 114195 | 114195 | 5.6 | 5.6 | 178.6 | 178.7 |
| June | 105848 | 106057 | 125.3 | 125.4 | 115018 | 115018 | 5.3 | 5.3 | 178.5 | 178.6 |
| July | 106075 | 106257 | 125.6 | 126.4 | 115127 | 115059 | 5.4 | 5.4 | 179.3 | 179.3 |
| August | 106295 | 106476 | 125.9 | 125.5 | 115226 | 115180 | 5.4 | 5.6 | 180.1 | 179.4 |
| September | 106560 | 106734* | 126.1 | 126.4* | 114974 | 115563* | 5.3 | 5.4* | 180.8 | 180.2* |
| October | 106753 | 106982 | 126.3 | 127.0 | 115543 | 115876 | 5.3 | 5.3 | 181.3 | 181.0 |
| November | 106900 | 107123 | 126.5 | 127.3 | 115881 | 116008 | 5.3 | 5.2 | 181.8 | 181.8 |
| December | 107048 | 107346 | 126.7 | 127.5 | 116220 | 116254 | 5.2 | 5.2 | 182.4 | 182.9 |
| January 1989 | 107309 | 107563 | 127.0 | 127.8 | 116489 | 116564 | 5.1 | 5.0 | 183.2 | 183.6 |
| February | 107627 | 107812 | 127.4 | 128.0 | 116750 | 116855 | 5.0 | 5.0 | 184.0 | 184.2 |
| March | 107948 | 107992 | 127.7 | 128.2 | 117012 | 117039 | 5.0 | 5.0 | 184.8 | 184.9 |
| April | 108062 | 108186 | 127.8 | 128.5 | 117143 | 117284 | 5.1 | 4.9 | 185.3 | 185.5 |
| May | 108174 | 108347 | 128.0 | 128.6 | 117292 | 117470 | 5.0 | 4.9 | 185.9 | 186.1 |
| June | 108290 | 108502 | 128.1 | 128.8 | 117453 | 117666 | 5.0 | 4.9 | 186.4 | 186.7 |
| July | 108483 | 108669 | 128.3 | 128.9 | 117638 | 117858 | 4.9 | 4.9 | 187.2 | 187.4 |
| August | 108754 | 108812 | 128.6 | 129.1 | 117837 | 118005 | 4.9 | 4.9 | 188.0 | 188.1 |
| September | 109021 | 108992 | 128.8 | 129.2 | 118030 | 118205 | 4.9 | 4.9 | 188.8 | 188.9 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 3.996 | 3.996 | 2.394 | 2.394 | 89.5 | 89.5 | 3.352 | 3.352 | 3.263 | 3.263 |
| May | 4.014 | 4.021 | 2.407 | 2.409 | 152.4 | 156.2 | 3.434 | 3.441 | 3.282 | 3.285 |
| June | 4.042 | 4.046 | 2.425 | 2.427 | 149.8 | 145.1 | 3.463 | 3.466 | 3.313 | 3.321 |
| July | 4.064 | 4.071 | 2.440 | 2.452 | 145.3 | 149.5 | 3.475 | 3.487 | 3.329 | 3.338 |
| August | 4.087 | 4.101* | 2.453 | 2.471* | 140.2 | 153.2* | 3.483 | 3.512* | 3.343 | 3.359* |
| September | 4.110 | 4.124 | 2.466 | 2.486 | 127.0 | 160.0 | 3.488 | 3.531 | 3.358 | 3.371 |
| October | 4.132 | 4.147 | 2.478 | 2.502 | 134.3 | 167.9 | 3.509 | 3.549 | 3.375 | 3.381 |
| November | 4.153 | 4.168 | 2.490 | 2.515 | 144.5 | 161.7 | 3.537 | 3.566 | 3.393 | 3.404 |
| December | 4.175 | 4.194 | 2.502 | 2.531 | 153.8 | 162.7 | 3.565 | 3.587 | 3.411 | 3.424 |
| January 1989 | 4.192 | 4.216 | 2.521 | 2.548 | 158.5 | 181.4 | 3.590 | 3.626 | 3.431 | 3.445 |
| February | 4.231 | 4.242 | 2.543 | 2.562 | 154.3 | 190.1 | 3.605 | 3.654 | 3.451 | 3.464 |
| March | 4.270 | 4.268 | 2.565 | 2.577 | 148.9 | 198.2 | 3.621 | 3.678 | 3.472 | 3.480 |
| April | 4.286 | 4.295 | 2.574 | 2.593 | 149.4 | 193.2 | 3.641 | 3.694 | 3.492 | 3.501 |
| May | 4.298 | 4.315 | 2.584 | 2.604 | 143.7 | 188.1 | 3.656 | 3.710 | 3.512 | 3.522 |
| June | 4.311 | 4.340 | 2.593 | 2.618 | 136.8 | 187.4 | 3.672 | 3.731 | 3.533 | 3.544 |
| July | 4.339 | 4.362 | 2.610 | 2.631 | 139.4 | 184.0 | 3.691 | 3.748 | 3.552 | 3.564 |
| August | 4.368 | 4.387 | 2.627 | 2.647 | 139.3 | 183.0 | 3.710 | 3.769 | 3.570 | 3.586 |
| September | 4.396 | 4.411 | 2.645 | 2.661 | 140.4 | 184.0 | 3.729 | 3.788 | 3.588 | 3.604 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 3164.2 | 3164.2 | 442.3 | 442.3 | 1025.7 | 1025.7 | 1696.2 | 1696.2 | 2565.9 | 2565.9 |
| May | 3182.7 | 3185.3 | 445.0 | 445.1 | 1030.3 | 1038.1 | 1707.5 | 1702.1 | 2569.7 | 2572.6 |
| June | 3213.5 | 3221.4 | 453.6 | 457.1 | 1034.8 | 1043.1 | 1725.2 | 1720.7 | 2587.1 | 2595.2 |
| July | 3226.4 | 3237.1 | 450.9 | 457.1 | 1039.2 | 1047.1 | 1736.3 | 1732.9 | 2587.3 | 2598.1* |
| August | 3244.5 | 3257.8* | 454.5 | 460.7* | 1043.1 | 1053.3* | 1746.9 | 1743.8* | 2593.5 | 2604.5 |
| September | 3255.4 | 3269.4 | 455.4 | 460.6 | 1047.3 | 1058.2 | 1752.7 | 1750.6 | 2593.9 | 2603.7 |
| October | 3273.2 | 3278.8 | 456.3 | 454.1 | 1051.5 | 1062.2 | 1765.4 | 1762.5 | 2597.8 | 2601.4 |
| November | 3290.8 | 3301.3 | 457.1 | 459.8 | 1056.1 | 1067.7 | 1777.6 | 1773.8 | 2601.4 | 2609.6 |
| December | 3308.7 | 3320.6 | 458.2 | 461.8 | 1061.0 | 1073.5 | 1789.5 | 1785.3 | 2605.3 | 2616.2 |
| January 1989 | 3328.2 | 3340.2 | 459.5 | 464.7 | 1066.4 | 1077.9 | 1802.3 | 1797.6 | 2610.4 | 2621.2 |
| February | 3347.5 | 3358.5 | 460.6 | 464.9 | 1071.1 | 1084.1 | 1815.8 | 1809.5 | 2613.2 | 2623.9 |
| March | 3365.4 | 3373.9 | 461.7 | 463.5 | 1075.8 | 1089.0 | 1827.9 | 1821.4 | 2614.9 | 2624.4 |
| April | 3385.7 | 3393.8 | 461.9 | 464.1 | 1083.4 | 1095.9 | 1840.4 | 1833.8 | 2616.5 | 2625.9 |
| May | 3405.8 | 3414.1 | 461.5 | 465.2 | 1091.2 | 1103.3 | 1853.1 | 1845.6 | 2617.8 | 2627.9 |
| June | 3429.5 | 3435.1 | 464.7 | 465.1 | 1099.0 | 1111.5 | 1865.8 | 1858.5 | 2621.9 | 2630.4 |
| July | 3444.4 | 3454.8 | 461.0 | 464.8 | 1104.5 | 1116.4 | 1878.9 | 1873.6 | 2623.3 | 2635.1 |
| August | 3464.3 | 3476.0 | 462.9 | 467.6 | 1109.9 | 1122.5 | 1891.5 | 1885.9 | 2628.5 | 2640.7 |
| September | 3482.0 | 3493.2 | 464.2 | 467.4 | 1114.4 | 1127.9 | 1903.4 | 1897.9 | 2629.9 | 2641.8 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 131.72 | 131.72 | 20.85 | 20.85 | 10.5 | 10.5 | 81.30 | 81.30 | 29.57 | 29.57 |
| May | 132.05 | 132.83 | 20.95 | 20.93 | 10.3 | 10.3 | 81.77 | 82.42 | 29.33 | 29.49 |
| June | 132.77 | 133.39 | 20.85 | 21.14 | 10.6 | 10.6 | 82.23 | 82.66 | 29.69 | 29.59 |
| July | 132.82 | 134.02 | 20.91 | 20.91 | 10.4 | 10.7 | 82.58 | 82.96 | 29.33 | 30.15 |
| August | 133.73 | 134.91* | 20.68 | 20.85* | 10.8 | 10.9* | 82.89 | 83.45* | 30.16 | 30.61* |
| September | 134.06 | 135.29 | 20.64 | 20.80 | 10.8 | 10.9 | 83.22 | 83.84 | 30.20 | 30.65 |
| October | 134.40 | 134.88 | 20.88 | 20.89 | 10.5 | 10.4 | 83.56 | 84.16 | 29.96 | 29.83 |
| November | 134.85 | 135.95 | 20.79 | 20.96 | 10.6 | 10.6 | 83.92 | 84.59 | 30.14 | 30.40 |
| December | 135.36 | 136.64 | 20.75 | 20.90 | 10.7 | 10.7 | 84.31 | 85.05 | 30.30 | 30.69 |
| January 1989 | 135.94 | 137.31 | 21.21 | 20.98 | 10.5 | 10.8 | 84.74 | 85.40 | 29.99 | 30.93 |
| February | 136.44 | 137.82 | 21.03 | 20.95 | 10.6 | 10.8 | 85.12 | 85.89 | 30.29 | 30.98 |
| March | 136.93 | 138.05 | 21.06 | 21.07 | 10.6 | 10.6 | 85.49 | 86.28 | 30.38 | 30.70 |
| April | 137.56 | 138.67 | 21.38 | 21.23 | 10.5 | 10.5 | 86.09 | 86.83 | 30.09 | 30.61 |
| May | 138.13 | 139.38 | 21.49 | 21.28 | 10.4 | 10.5 | 86.71 | 87.41 | 29.93 | 30.69 |
| June | 139.11 | 140.01 | 21.57 | 21.35 | 10.5 | 10.4 | 87.33 | 88.06 | 30.21 | 30.60 |
| July | 139.14 | 140.37 | 21.55 | 21.46 | 10.1 | 10.3 | 87.77 | 88.45 | 29.82 | 30.46 |
| August | 139.78 | 141.16 | 21.57 | 21.55 | 10.2 | 10.4 | 88.20 | 88.93 | 30.01 | 30.68 |
| September | 140.28 | 141.57 | 21.79 | 21.60 | 10.1 | 10.4 | 88.56 | 89.36 | 29.93 | 30.61 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 1.584 | 1.584 | 1.093 | 1.093 | 1.449 | 1.449 | 402.7 | 402.7 | 348.2 | 348.2 |
| May | 1.384 | 1.393 | 0.996 | 0.996 | 1.436 | 1.436 | 407.1 | 402.3 | 350.2 | 346.1 |
| June | 1.454 | 1.454 | 1.098 | 1.098 | 1.489 | 1.493 | 408.5 | 396.2 | 350.6 | 340.3 |
| July | 1.526 | 1.489 | 1.105 | 1.080 | 1.443 | 1.413 | 408.8 | 401.0 | 350.3 | 342.8 |
| August | 1.481 | 1.478* | 1.073 | 1.056* | 1.392 | 1.392* | 409.0 | 395.9* | 349.9 | 337.5* |
| September | 1.448 | 1.459 | 1.050 | 1.039 | 1.365 | 1.378 | 408.6 | 397.2 | 349.2 | 337.8 |
| October | 1.459 | 1.481 | 1.046 | 1.045 | 1.372 | 1.393 | 410.4 | 400.0 | 349.6 | 339.0 |
| November | 1.465 | 1.489 | 1.040 | 1.053 | 1.380 | 1.407 | 412.4 | 402.8 | 350.1 | 340.2 |
| December | 1.462 | 1.474 | 1.036 | 1.051 | 1.382 | 1.382 | 413.9 | 403.2 | 350.2 | 339.4 |
| January 1989 | 1.458 | 1.469 | 1.035 | 1.026 | 1.365 | 1.376 | 414.4 | 404.4 | 349.7 | 339.5 |
| February | 1.450 | 1.455 | 1.040 | 1.031 | 1.350 | 1.364 | 416.8 | 405.6 | 350.8 | 339.4 |
| March | 1.446 | 1.437 | 1.031 | 1.006 | 1.354 | 1.338 | 418.4 | 404.0 | 351.0 | 336.9 |
| April | 1.440 | 1.451 | 1.026 | 1.009 | 1.343 | 1.350 | 420.2 | 406.8 | 351.6 | 338.2 |
| May | 1.443 | 1.470 | 1.020 | 1.020 | 1.345 | 1.379 | 420.6 | 409.6 | 351.1 | 339.1 |
| June | 1.437 | 1.487 | 1.014 | 1.015 | 1.350 | 1.383 | 420.3 | 412.1 | 349.7 | 340.0 |
| July | 1.409 | 1.487 | 1.001 | 1.016 | 1.317 | 1.391 | 422.5 | 414.5 | 350.3 | 340.9 |
| August | 1.402 | 1.483 | 0.996 | 1.022 | 1.296 | 1.395 | 423.9 | 417.6 | 350.3 | 342.3 |
| September | 1.396 | 1.476 | 0.990 | 1.020 | 1.301 | 1.390 | 425.3 | 419.6 | 350.6 | 342.8 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 128.3 | 128.3 | 79.1 | 79.1 | 195.3 | 195.3 |
| May | 134.8 | 132.3 | 78.9 | 80.1 | 193.4 | 189.9 |
| June | 135.9 | 130.6 | 79.4 | 78.3 | 193.2 | 187.3 |
| July | 136.4 | 131.5 | 78.9 | 81.2 | 193.5 | 188.3 |
| August | 136.9 | 130.8* | 78.8 | 78.4* | 193.3 | 186.7* |
| September | 136.5 | 130.9 | 78.8 | 78.9 | 193.3 | 187.4 |
| October | 137.0 | 132.6 | 79.0 | 80.2 | 194.4 | 187.2 |
| November | 137.4 | 133.5 | 79.2 | 80.5 | 195.8 | 188.8 |
| December | 137.8 | 133.0 | 79.2 | 80.1 | 196.9 | 190.1 |
| January 1989 | 138.6 | 133.8 | 79.6 | 80.6 | 196.2 | 190.0 |
| February | 139.8 | 134.5 | 80.1 | 81.4 | 196.9 | 189.7 |
| March | 141.1 | 134.9 | 80.5 | 80.3 | 196.8 | 188.8 |
| April | 142.0 | 136.1 | 80.9 | 81.6 | 197.3 | 189.1 |
| May | 141.5 | 136.5 | 81.2 | 82.5 | 197.9 | 190.6 |
| June | 140.3 | 136.3 | 81.5 | 82.9 | 198.5 | 192.9 |
| July | 142.4 | 136.6 | 82.1 | 83.4 | 198.0 | 194.5 |
| August | 143.3 | 137.9 | 82.8 | 83.9 | 197.8 | 195.8 |
| September | 144.2 | 138.5 | 83.5 | 84.6 | 197.6 | 196.5 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 340.9 | 340.9 | 117.27 | 117.27 | 33.49 | 33.49 | 31.07 | 31.07 |
| May | 343.1 | 340.1 | 115.10 | 115.37 | 31.50 | 31.52 | 31.76 | 31.67 |
| June | 344.9 | 342.0 | 125.23 | 125.44 | 34.57 | 35.46 | 31.98 | 31.82 |
| July | 346.3 | 343.5 | 118.46 | 116.53 | 31.86 | 35.77 | 32.07 | 31.98 |
| August | 348.8 | 345.2* | 119.63 | 117.35* | 32.15 | 35.63* | 32.17 | 32.13* |
| September | 350.2 | 346.8 | 120.15 | 118.94 | 32.36 | 34.21 | 32.26 | 32.25 |
| October | 352.9 | 347.9 | 119.11 | 118.43 | 32.53 | 34.05 | 32.53 | 32.73 |
| November | 355.1 | 349.5 | 120.43 | 119.52 | 32.93 | 34.29 | 32.67 | 32.66 |
| December | 357.3 | 351.1 | 121.62 | 121.26 | 33.46 | 34.88 | 32.82 | 32.94 |
| January 1989 | 359.5 | 353.0 | 119.85 | 118.85 | 32.55 | 33.29 | 33.02 | 32.86 |
| February | 361.2 | 355.2 | 120.36 | 116.93 | 32.93 | 32.94 | 33.20 | 33.26 |
| March | 363.0 | 356.8 | 121.45 | 117.78 | 33.14 | 33.15 | 33.38 | 33.45 |
| April | 365.6 | 358.5 | 121.89 | 118.85 | 33.48 | 33.46 | 33.46 | 33.56 |
| May | 368.1 | 361.0 | 122.53 | 119.93 | 33.65 | 33.65 | 33.55 | 33.72 |
| June | 370.6 | 363.4 | 122.76 | 119.27 | 33.92 | 33.45 | 33.63 | 33.60 |
| July | 372.3 | 365.5 | 122.50 | 118.81 | 33.98 | 33.27 | 33.70 | 33.51 |
| August | 374.5 | 368.0 | 121.89 | 119.94 | 33.91 | 33.46 | 33.83 | 33.64 |
| September | 376.8 | 369.4 | 123.26 | 121.62 | 33.84 | 33.81 | 33.96 | 33.78 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 723.7 | 723.7 | 8.47 | 8.47 | 135.4 | 135.4 | 82.6 | 82.7 |
| May | 728.4 | 728.4 | 8.37 | 8.38 | 136.1 | 136.1 | 82.9 | 82.9 |
| June | 732.0 | 733.9 | 9.07 | 8.72 | 136.6 | 136.6 | 83.1 | 83.1 |
| July | 736.1 | 738.3* | 8.94 | 8.51 | 137.3 | 137.7 | 83.3 | 83.5 |
| August | 740.3 | 742.6 | 8.63 | 8.62* | 137.0 | 137.4* | 83.0 | 83.1* |
| September | 744.6 | 746.9 | 8.65 | 8.65 | 137.6 | 137.6 | 83.2 | 83.1 |
| October | 748.7 | 750.2 | 8.70 | 8.61 | 138.2 | 138.1 | 83.4 | 83.3 |
| November | 753.5 | 753.4 | 8.75 | 8.70 | 138.6 | 138.5 | 83.5 | 83.4 |
| December | 758.1 | 756.9 | 8.75 | 8.76 | 139.0 | 138.9 | 83.7 | 83.5 |
| January 1989 | 761.9 | 761.1 | 8.83 | 8.81 | 139.5 | 139.3 | 83.8 | 83.6 |
| February | 765.7 | 765.4 | 8.89 | 8.86 | 140.0 | 139.9 | 83.9 | 83.9 |
| March | 768.5 | 768.8 | 8.95 | 8.92 | 140.5 | 140.4 | 84.1 | 84.1 |
| April | 773.6 | 773.2 | 9.15 | 9.05 | 141.1 | 141.0 | 84.2 | 84.3 |
| May | 781.0 | 778.5 | 9.02 | 9.01 | 141.3 | 141.2 | 84.2 | 84.3 |
| June | 788.5 | 783.9 | 8.96 | 9.04 | 141.5 | 141.4 | 84.1 | 84.3 |
| July | 793.4 | 790.5 | 9.11 | 9.11 | 141.6 | 141.6 | 84.0 | 84.2 |
| August | 796.0 | 798.4 | 9.19 | 9.15 | 141.7 | 141.6 | 83.9 | 84.0 |
| September | 798.5 | 803.7 | 9.26 | 9.21 | 141.6 | 141.7 | 83.7 | 83.9 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 117.2 | 117.2 | 107.0 | 107.0 | 105.6 | 105.6 | 120.1 | 120.4 |
| May | 117.5 | 117.5 | 107.4 | 107.4 | 106.1 | 106.1 | 120.6 | 120.9 |
| June | 117.9 | 117.9 | 107.8 | 107.8 | 106.5 | 106.5 | 121.0 | 121.2 |
| July | 118.3 | 118.3 | 108.2 | 108.4 | 106.9 | 106.7 | 121.4 | 121.7 |
| August | 118.8 | 118.9* | 108.7 | 109.0* | 107.3 | 107.5* | 121.8 | 122.2 |
| September | 119.3 | 119.4 | 109.2 | 109.4 | 106.3 | 106.6 | 122.3 | 122.6 |
| October | 119.7 | 119.8 | 109.6 | 109.6 | 107.5 | 107.8 | 122.6 | 123.1 |
| November | 120.1 | 120.3 | 110.0 | 109.9 | 107.7 | 108.2 | 122.9 | 123.5 |
| December | 120.5 | 120.6 | 110.3 | 110.1 | 107.7 | 108.4 | 123.2 | 123.9 |
| January 1989 | 121.0 | 121.1 | 110.8 | 110.5 | 108.3 | 108.8 | 123.7 | 124.4 |
| February | 121.6 | 121.7 | 111.3 | 111.0 | 108.9 | 109.3 | 124.3 | 124.9 |
| March | 122.0 | 122.2 | 111.6 | 111.4 | 109.5 | 109.8 | 124.9 | 125.5 |
| April | 122.7 | 122.8 | 112.2 | 111.9 | 110.1 | 110.2 | 125.4 | 126.1 |
| May | 123.4 | 123.5 | 112.8 | 112.3 | 110.7 | 110.8 | 125.8 | 126.8 |
| June | 124.1 | 124.2 | 113.4 | 112.7 | 111.3 | 111.3 | 126.2 | 127.4 |
| July | 124.6 | 124.6 | 113.8 | 113.2 | 112.0 | 111.9 | 126.7 | 127.9 |
| August | 125.2 | 125.1 | 114.3 | 113.8 | 112.5 | 112.4 | 127.1 | 128.4 |
| September | 125.8 | 125.7 | 114.8 | 114.5 | 111.6 | 111.8 | 127.5 | 129.0 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 123.3 | 123.3 | 109.3 | 109.3 | 115.5 | 115.5 | 133.3 | 133.3 | 115.6 | 115.6 |
| May | 123.9 | 123.8 | 109.4 | 109.4 | 116.1 | 116.2 | 133.8 | 133.8 | 116.2 | 116.2 |
| June | 124.2 | 124.1 | 109.9 | 109.9 | 116.4 | 116.4 | 134.3 | 134.2 | 116.5 | 116.4 |
| July | 124.7 | 124.6* | 110.1 | 110.1* | 116.8 | 116.8* | 134.8 | 134.7* | 116.7 | 117.0 |
| August | 125.1 | 125.1 | 110.3 | 110.3 | 117.1 | 117.3 | 135.4 | 135.3 | 116.9 | 117.3* |
| September | 125.5 | 125.6 | 110.4 | 110.6 | 117.4 | 117.7 | 136.0 | 135.9 | 117.0 | 117.6 |
| October | 126.0 | 126.0 | 110.9 | 111.0 | 117.9 | 118.0 | 136.5 | 136.4 | 117.4 | 118.0 |
| November | 126.5 | 126.5 | 111.2 | 111.3 | 118.4 | 118.4 | 136.9 | 137.0 | 117.8 | 118.4 |
| December | 127.0 | 126.9 | 111.5 | 111.5 | 118.8 | 118.8 | 137.3 | 137.5 | 118.2 | 118.8 |
| January 1989 | 127.5 | 127.4 | 111.7 | 111.7 | 119.5 | 119.3 | 138.1 | 138.1 | 118.5 | 119.1 |
| February | 128.1 | 128.0 | 111.9 | 112.0 | 120.0 | 119.9 | 138.8 | 138.7 | 118.8 | 119.5 |
| March | 128.7 | 128.6 | 112.1 | 112.2 | 120.5 | 120.5 | 139.5 | 139.3 | 119.2 | 119.9 |
| April | 129.4 | 129.2 | 112.4 | 112.5 | 121.4 | 121.3 | 140.1 | 140.0 | 119.5 | 120.3 |
| May | 130.1 | 129.9 | 112.7 | 112.8 | 122.5 | 122.2 | 140.7 | 140.6 | 119.8 | 120.8 |
| June | 130.8 | 130.6 | 113.0 | 113.1 | 123.6 | 123.1 | 141.3 | 141.2 | 120.2 | 121.2 |
| July | 131.3 | 131.1 | 113.3 | 113.4 | 123.8 | 123.5 | 142.0 | 141.8 | 120.6 | 121.6 |
| August | 131.8 | 131.6 | 113.6 | 113.7 | 124.0 | 123.9 | 142.7 | 142.5 | 121.0 | 122.0 |
| September | 132.4 | 132.2 | 113.9 | 114.0 | 124.2 | 124.3 | 143.4 | 143.3 | 121.3 | 122.4 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | -10.27 | -10.27 | 192.8 | 192.8 | 4778 | 4783 | 3979 | 3973 | -18.3 | -23.3 |
| May | -10.93 | -9.97 | 192.6 | 192.6 | 4806 | 4822 | 3985 | 3988 | -19.6 | -29.6 |
| June | -10.10 | -12.54 | 194.9 | 194.9 | 4830 | 4854 | 3995 | 4005 | -29.1 | -34.1 |
| July | -10.76 | -12.04* | 194.0 | 192.1 | 4869 | 4881 | 4011 | 4010 | -26.2 | -29.2 |
| August | -10.59 | -11.63 | 194.5 | 192.3* | 4885 | 4905 | 4011 | 4014 | -23.0 | -25.6 |
| September | -10.42 | -11.26 | 195.3 | 192.8 | 4908 | 4926 | 4013 | 4018 | -20.1 | -20.4 |
| October | -10.36 | -11.51 | 194.7 | 193.5 | 4934 | 4950 | 4024 | 4022 | -20.0 | -16.3 |
| November | -10.30 | -11.05 | 194.0 | 193.3 | 4965 | 4980 | 4040 | 4033 | -18.6 | -15.8 |
| December | -10.24 | -10.63 | 193.8 | 193.6 | 4997 | 5008 | 4056 | 4042 | -18.3 | -17.9 |
| January 1989 | -9.56 | -9.97 | 193.9 | 194.0 | 5034 | 5046 | 4070 | 4056 | -19.7 | -20.3 |
| February | -9.27 | -9.85 | 192.6 | 193.7 | 5065 | 5094 | 4075 | 4078 | -21.2 | -21.8 |
| March | -8.86 | -9.92 | 192.5 | 193.5 | 5097 | 5113 | 4081 | 4074 | -22.8 | -23.5 |
| April | -8.96 | -10.01 | 193.1 | 193.5 | 5128 | 5152 | 4089 | 4086 | -27.3 | -26.6 |
| May | -8.94 | -9.65 | 193.6 | 192.8 | 5159 | 5192 | 4101 | 4095 | -30.5 | -29.5 |
| June | -8.90 | -9.27 | 193.0 | 192.1 | 5189 | 5222 | 4112 | 4099 | -33.1 | -29.1 |
| July | -8.98 | -9.43 | 192.5 | 192.0 | 5220 | 5257 | 4120 | 4111 | -31.5 | -26.7 |
| August | -9.15 | -9.40 | 192.9 | 192.3 | 5241 | 5301 | 4124 | 4128 | -30.0 | -25.5 |
| September | -8.92 | -9.16 | 192.7 | 191.8 | 5262 | 5321 | 4127 | 4125 | -28.5 | -26.4 |

| | Currency Index | | Adjusted Profits | | 30-Year Government Bonds | | New York Composite | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore | C.E. | Fore. | C.E. |
| April 1988 | 88.95 | 88.95 | 181.4 | 183.4 | 8.95 | 8.95 | 148.46 | 148.46 |
| May | 89.74 | 89.74 | 180.9 | 183.9 | 9.23 | 9.23 | 144.99 | 144.99 |
| June | 92.58 | 92.58 | 182.5 | 196.4* | 9.00 | 9.00 | 152.72 | 152.72 |
| July | 95.65 | 95.53 | 176.5 | 198.2 | 9.23 | 9.14 | 150.65 | 151.13 |
| August | 96.20 | 96.78* | 170.4 | 189.4 | 9.25 | 9.34 | 151.93 | 150.14* |
| September | 96.86 | 94.51 | 169.3 | 188.6 | 9.11 | 9.15 | 153.24 | 152.68 |
| October | 93.27 | 90.43 | 170.5 | 185.3 | 9.22 | 9.20 | 153.06 | 150.25 |
| November | 89.42 | 88.62 | 173.3 | 185.9 | 9.53 | 9.39 | 151.47 | 143.76 |
| December | 92.41 | 89.25 | 176.2 | 186.8 | 9.86 | 9.56 | 150.16 | 140.25 |
| January 1989 | 93.12 | 90.12 | 175.0 | 179.7 | 10.04 | 9.79 | 149.23 | 141.52 |
| February | 93.76 | 91.65 | 172.9 | 179.3 | 10.16 | 9.85 | 147.65 | 143.65 |
| March | 93.62 | 90.11 | 170.8 | 180.5 | 10.31 | 9.90 | 146.16 | 141.92 |
| April | 93.74 | 92.23 | 169.5 | 180.1 | 10.50 | 9.86 | 142.29 | 140.53 |
| May | 93.91 | 92.88 | 169.0 | 179.5 | 10.43 | 9.75 | 139.63 | 138.81 |
| June | 93.75 | 93.65 | 170.3 | 179.1 | 10.59 | 9.88 | 139.98 | 140.23 |
| July | 94.83 | 94.17 | 171.5 | 176.5 | 10.65 | 9.80 | 140.42 | 142.75 |
| August | 96.27 | 93.12 | 171.1 | 173.8 | 10.61 | 9.71 | 143.57 | 145.53 |
| September | 93.60 | 93.05 | 171.9 | 174.9 | ~~10.52~~ | ~~9.56~~ | 146.71 | 143.21 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 275.8 | 275.8 | 770.2 | 770.1 | 2991.9 | 2991.3 | 6.87 | 6.87 | 6.21 | 6.21 |
| May | 276.7 | 276.7 | 770.1 | 770.2 | 3003.7 | 3002.3 | 7.09 | 7.09 | 6.56 | 6.56 |
| June | 277.8 | 277.8 | 776.4 | 776.5 | 3018.1 | 3016.2 | 7.51 | 7.51 | 6.71 | 6.71 |
| July | 280.3 | 280.8 | 783.5 | 782.4 | 3028.9 | 3025.0 | 7.64 | 7.75 | 7.05 | 6.99 |
| August | 282.3 | 281.7* | 789.6 | 782.6* | 3043.5 | 3029.8* | 7.81 | 7.96* | 7.16 | 7.43* |
| September | 284.4 | 283.3 | 795.5 | 787.3 | 3058.2 | 3048.0 | 7.96 | 8.12 | 7.27 | 7.47 |
| October | 286.0 | 285.0 | 799.4 | 792.3 | 3076.3 | 3067.4 | 8.10 | 8.10 | 7.36 | 7.43 |
| November | 287.2 | 286.4 | 802.6 | 796.8 | 3094.0 | 3082.8 | 8.16 | 8.26 | 7.42 | 7.60 |
| December | 288.4 | 288.0 | 803.7 | 800.1 | 3112.5 | 3095.1 | 8.22 | 8.53 | 7.48 | 7.89 |
| January 1989 | 290.3 | 289.7 | 808.5 | 805.4 | 3133.4 | 3115.6 | 8.20 | 8.96 | 7.40 | 8.05 |
| February | 292.5 | 290.9 | 814.9 | 809.3 | 3151.2 | 3132.7 | 8.23 | 9.03 | 7.35 | 8.17 |
| March | 294.6 | 292.5 | 821.3 | 813.2 | 3169.4 | 3149.8 | 8.26 | 9.05 | 7.36 | 8.12 |
| April | 296.3 | 294.1 | 824.6 | 816.4 | 3185.2 | 3162.2 | 8.53 | 9.13 | 7.64 | 8.15 |
| May | 297.6 | 295.6 | 827.0 | 819.7 | 3207.2 | 3177.0 | 8.86 | 9.27 | 8.03 | 8.28 |
| June | 298.9 | 297.3 | 829.5 | 823.5 | 3228.9 | 3191.7 | 9.19 | 9.25 | 8.30 | 8.25 |
| July | 300.5 | 298.9 | 835.1 | 827.4 | 3246.5 | 3207.8 | 9.25 | 9.23 | 8.20 | 8.23 |
| August | 302.7 | 300.5 | 840.0 | 832.4 | 3262.7 | 3223.8 | 9.11 | 9.33 | 7.92 | 8.30 |
| September | 304.9 | 302.4 | 844.8 | 838.0 | 3278.8 | 3245.5 | 9.05 | 9.30 | 7.63 | 8.29 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 9.67 | 9.67 | 7.81 | 7.81 | 6.86 | 6.86 | 6.92 | 6.92 | 8.50 | 8.50 |
| May | 9.90 | 9.90 | 7.91 | 7.91 | 7.19 | 7.19 | 7.24 | 7.24 | 8.84 | 8.84 |
| June | 9.86 | 9.86 | 7.78 | 7.78 | 7.49 | 7.49 | 7.51 | 7.51 | 9.00 | 9.00 |
| July | 10.02 | 9.96 | 7.88 | 7.76 | 7.73 | 7.82 | 7.86 | 7.94 | 9.42 | 9.29 |
| August | 10.08 | 10.12* | 7.93 | 7.83* | 7.92 | 8.30* | 8.03 | 8.38 | 9.50 | 9.78 |
| September | 10.15 | 10.03 | 7.96 | 7.78 | 8.05 | 8.33 | 8.14 | 8.46 | 9.50 | 10.00 |
| October | 10.20 | 10.05 | 8.01 | 7.80 | 8.15 | 8.26 | 8.26 | 8.40 | 9.56 | 10.00 |
| November | 10.23 | 10.21 | 8.00 | 7.89 | 8.22 | 8.37 | 8.35 | 8.51 | 10.00 | 10.26 |
| December | 10.26 | 10.38 | 8.03 | 8.04 | 8.30 | 8.59 | 8.39 | 8.70 | 10.00 | 10.50 |
| January 1989 | 10.39 | 10.65 | 8.15 | 8.27 | 8.30 | 8.94 | 8.43 | 9.05 | 10.00 | 10.73 |
| February | 10.46 | 10.73 | 8.20 | 8.35 | 8.34 | 9.05 | 8.45 | 9.22 | 10.00 | 11.00 |
| March | 10.50 | 10.78 | 8.23 | 8.40 | 8.40 | 9.08 | 8.51 | 9.25 | 10.00 | 11.00 |
| April | 10.78 | 10.72 | 8.42 | 8.33 | 8.59 | 9.26 | 8.62 | 9.36 | 10.00 | 11.00 |
| May | 10.93 | 10.65 | 8.59 | 8.27 | 8.82 | 9.30 | 8.93 | 9.43 | 10.46 | 11.00 |
| June | 11.10 | 10.77 | 8.66 | 8.30 | 9.15 | 9.24 | 9.23 | 9.38 | 10.95 | 11.00 |
| July | 11.01 | 10.70 | 8.57 | 8.29 | 9.26 | 9.25 | 9.30 | 9.36 | 11.00 | 11.00 |
| August | 10.90 | 10.64 | 8.43 | 8.25 | 9.10 | 9.33 | 9.16 | 9.45 | 10.87 | 11.00 |
| September | 10.78 | 10.60 | 8.35 | 8.20 | 8.98 | 9.35 | 9.05 | 9.44 | 10.50 | 11.00 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

U1880-3
10/27/88

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College of Business Administration
404/651-3282

# MONTHLY PROJECTIONS
September 1988

Dr. Donald Ratajczak, Director
For Release: October 14, 1988

## OPEC DISARRAY DELAYS INFLATIONARY SPURT

Just when rising wages from tightening labor markets and higher food prices from the drought appeared to increase inflationary prospects next year, overproduction of oil by Persian Gulf nations led to a sharp unseasonal drop in oil prices just prior to the heating season. Indeed, production in September was estimated at 20.8 million barrels for the OPEC nations when only 20 million barrels will be needed to meet consumption in the middle of winter. Thus, excess inventories have frightened the oil industry, with Texas crude falling to $13 per barrel early in October.

Two related factors appear to be responsible for this overproduction. First, both Iran and Iraq wish to increase production in order to rebuild their economies during the current ceasefire. By itself, this increased production would have a slight downward impact upon prices. Second, Saudi Arabia, in an attempt to punish violators of OPEC production quotas has sharply increased its own production. This is an obvious attempt to demonstrate that production cheaters will not be able to garner increased revenues from their actions because Saudi Arabia will counter their excess production with increased production of its own. The Saudis are hoping that this will encourage OPEC producers to abide by production quotas.

However, the political factors motivating Iran and Iraq will not permit them to abide by Saudi discipline for any period of time. Thus, periodic production cheating with periodic intervention by Saudi Arabia is anticipated through next year.

In the near-term, the approach of the heating season and the likelihood of further production agreements in the next OPEC meetings probably guarantee that some improvement in oil prices will develop. Nevertheless, oil probably will trade only near $14 per barrel during the heating season. This is down nearly $4 per barrel from what had been anticipated in the previous quarterly forecast.

As a result of this decline in oil prices, the cost of oil shipped into the United States will decline by $10 billion over the next year from what otherwise would be the case. Thus, price reductions created by turmoil in the oil markets nearly offset the inflationary pressures generated by the drought. Moreover, most of the drought's impact already has been registered upon prices. Therefore, consumer prices probably will slow to an increase of only 4% until oil prices reach their low point following the heating season in late winter. Also, the reduction in oil prices probably will restrain price increases for other industrial materials until next summer. This suggests more moderate inflationary pressures next year, about a half percent less, than had previously been anticipated.

Two favorable events can be expected as a result of this shift in oil pricing. First, reduced inflationary pressures probably will stay the hand of the Federal Reserve, at least until industrial inflation resurfaces next spring. This means a period of stability in short-term interest rates into the spring. Moreover, the absence of further tightening by the Federal Reserve may reduce interest rate fears, leading to slightly lower yields on long-term government bonds.

Second, the decline in oil prices will rebuild purchasing power in consumer pocketbooks that had been extracted as a result of the drought. Therefore, slightly stronger consumer activity should be anticipated over the next six months than originally expected. With interest rates also remaining stable, construction activity may perform slightly stronger than had been anticipated. Thus, the reduction in inflationary conditions as a result of oil price declines probably will be largely translated into increased real economic activity.

Eventually, this slight rebound in economic growth will further tighten labor markets and create further price pressures for industrial materials. Thus, inflationary fears merely are postponed rather than reversed. Nevertheless, economic growth will remain moderate throughout 1989 as the Fed will not be called upon to restrain economic activity until the middle of the year.

One caveat with this outlook is the position of the dollar. When most analysts feared that the economy was overheating and inflationary pressures were intensifying, foreign investors took this prospect to mean that the Federal Reserve would restrain reserve growth and encourage higher short-term interest rates. As a result, they felt safe in holding dollars. The recent sluggishness in economic activity along with the latest decline in oil prices raises a distinct possibility that Federal Reserve tightening will be delayed for three to six months. The absence of higher short-term interest rates has reduced confidence that the dollar will retain its value. Thus, the dollar now is again weakening significantly against other currencies.

In an apparent Catch-22 position, when interest rates were expected to rise, a stable dollar reduced the need for the Federal Reserve to encourage higher interest rates. Now that interest rates are expected to fall, reduced attractiveness of the dollar has raised the possibility that the Federal Reserve may need to encourage higher interest rates to reduce inflationary fallout from a declining currency.

Fortunately, Chairman Greenspan is not as concerned about the inflationary impact of weak currency markets as was the case under Paul Volcker. Therefore, the dollar probably can fall to the December lows of 120.5 yen before any Federal Reserve action to stem the dollar's weakness would be forthcoming. Investors may reverse their thinking as a result of Federal Reserve inaction and again support the dollar before that point is reached. Nevertheless, some vulnerability of the dollar could lead to an earlier increase in interest rates than currently anticipated.

## Quarterly Profile of GNP

| | 1988-2 | 1988-3 | 1988-4 | 1989-1 | 1989-2 | 1989-3 | 1988 Annual | 1989 Annual |
|---|---|---|---|---|---|---|---|---|
| Real: | 3.0 | 2.0 | 2.4 | 4.1 | 2.2 | 1.6 | 3.9 | 2.7 |
| Price: | 5.5 | 4.6 | 3.5 | 4.1 | 4.7 | 5.3 | 3.2 | 4.4 |
| Nominal: | 8.5 | 6.7 | 6.1 | 8.4 | 7.1 | 7.0 | 7.1 | 7.2 |

## Monthly Statistical Highlights for September 1988

Personal income +0.8%; savings rate 4.3%; personal consumption +0.3%; housing starts +2.3%; housing permits -2.5%; construction expenditures +1.0%; business inventories +0.5%; orders for durable goods -0.5%; orders for nondefense capital goods -3.5%; CPI +0.4%; consumption deflator +0.4%; leading indicators +0.1%; currency index -0.4%; equity index +3.6%; real GNP(AR) +1.2%; M1(AR) +2.3%; M2(AR) +1.9%.

## Monthly Statistical Highlights for October 1988

Payroll employment +229,000; index of hours worked +0.2%; household employment +314,000; civilian unemployment rate 5.3%; personal income +0.6%; savings rate 4.3%; personal consumption +0.6%; retail sales +0.7%; auto sales 10.4 million units; housing starts -0.4%; housing permits -1.9%; construction expenditures +0.2%; business inventories +0.4%; orders for durable goods -1.7%; orders for nondefense capital goods -1.9%; industrial production +0.3%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators +0.3%; currency index -3.8%; equity index +4.3%; real GNP(AR) +3.0%; M1(AR) +4.7%; M2(AR) +4.7%.

## Commentary

Employment - The latest employment survey showed a continuation of the economic stall that developed in August. While payroll employment was up 255,000, about 115,000 was the result of increased school teachers. Sampling errors or seasonal adjustment problems probably accounted for the bulk of these teacher job estimates. Manufacturing jobs declined for a second consecutive month. The workweek increased, but industrial production and personal income reports for August strongly suggest that the dip in the workweek last month was an aberration. Thus, the strong rebound in the index of hours worked should be completely discounted. In addition, a downward revision in July to only a 169,000 payroll increase suggests that sluggishness probably began a little sooner than previously anticipated. If this weakness is the result of slow export activity, as expected, some rebound already should be anticipated next month. The hourly earnings index rebounded a strong 0.5% and is now 3.3% above previous year levels. This gradual acceleration in wage pressures suggests that unemployment at 5.4% may be approaching the natural unemployment rate. Of course, increasing inflationary fears also may account for increased wage pressures.

Personal Income and Outlays - Sluggish gains in wages and a further reduction in farm income in August led to minimal increases for personal income. A rebound in farm income should be expected in September. In addition, the increase both in hours worked and in hourly earnings should lead to a sharp increase in wage and salary activity.

Better-than-anticipated auto sales in September are leading to stronger gains for consumer durables in September than originally anticipated. Continued increases in food prices along with a slight rebound in apparel purchases should lead to some strengthening of nondurable activity. On the other hand, the return to more normal weather following an unusually hot summer should substantially reduce the purchase of utilities, leading to only a very modest increase in service expenditures. Nevertheless, third-quarter consumption expenditures are stronger than had been anticipated in our quarterly forecast.

A decline in auto sales is expected with the higher sticker prices in October, but consumers appear to have both the capability and desire to maintain relatively strong auto sales. As a result, our estimate of auto sales activity has been revised upward for next year. Oil prices will have a slowing effect upon nondurable sales in the next few months as gasoline prices decline. However, rising food prices and a modest rebound in clothing purchases should lead to higher nondurable sales than originally anticipated.

Construction - Sales of single-family homes showed a modest rebound in August after an upward revision in their performance in July. As a result, inventories are only 6.3 months of current sales, which is satisfactory. Apparently, fears of higher mortgage rates once again have stimulated housing activity. This should lead to a slight rebound in single-family starts. In addition, reduced inflationary pressures as a result of falling oil prices may actually cause a modest decline in mortgage rates in the winter. Therefore, our estimates of single-family starts have been revised upward over the next six months. When the Fed restrains credit expansion in the spring, some slowing in housing starts will again appear.

Of course, stronger housing activity than originally anticipated leads to continued growth in residential construction through the winter. On the other hand, public construction has been significantly revised downward in recent months. While some rebound in public construction is expected, activity probably will grow more slowly than anticipated in the quarterly analysis. Similarly, a downward revision in nonresidential construction probably will persist into next year. However, increases in industrial construction should be sufficient to generate a slight upward trend in the dollar-value of nonresidential construction. It is noteworthy, however, that the F.W. Dodge measures of construction orders remain 3% below previous year levels.

The construction cost index has been revised downward significantly from previous reports. Indeed, construction costs actually declined slightly in August. This will be a significant contributing factor in restraining inflationary pressures in the construction sector of the economy. Some rebound is expected, but weak demand for construction product limits the degree to which inflationary pressures can be generated in construction materials and land prices.

Business Activity - Early shipments of new model automobiles kept strong pressures upon orders for nondefense capital goods. As automobiles are counted both as orders and shipments when they are shipped from the manufacturer, this also led to significant increase in capital shipments. The gap between orders and shipments currently is unusually wide and probably will necessitate some slowing in orders in the months ahead.

Defense orders also rebounded slightly as anticipated, but orders remain slightly below shipments in August. Thus, a further increase in defense orders is possible in September. Shipments should gradually rebound but no dramatic increases currently are expected in shipments of defense goods over the next twelve months.

Industrial production did not exhibit the degree of weakness that would have been anticipated by the dip in the workweek in August. As a result, it did not show a rebound merely because hours re-established their July levels. A slight increase in the assembly of automobiles along with some improvement in the production of business equipment offset weakness in utility production as the weather shifted to more normal patterns.

Prices - The drought continued to dominate prices for consumer nondurables in August. However, by October, reduced petroleum product will significantly slow prices in that sector. On the other hand, automobile prices initially were dramatically higher. Consumer reception was so cool that incentives already have materialized. Because of this additional incentive activity, automobile prices probably will grow at a slower rate in the next few months than had originally been anticipated. On the other hand, increased wage pressures probably will be reflected in higher prices for consumer services than had originally been intended. The net effect of all these price adjustments is a slightly slower rate of inflationary pressures as measured by the consumption deflator than originally thought. This also means that CPI-U will grow slightly below 5% in the twelve months of 1989 rather than approaching 5.5%, which had been thought prior to the disarray in OPEC production. Moreover, price increases for finished goods in the PPI index will be more modest than had previously been expected. On a December-to-December basis, the increase next year should be less than 4%.

Miscellaneous - Falling claims, a rebound in the workweek, and some strength in stock prices all should lead to improvement in the leading indicators for September. However, a continuation of strong consumer orders is unlikely. Also, building permits probably will be down and real money balances will shrink again for the third consecutive month. The net effect of all these adjustments is a relatively modest change in the leading indicators.

Of greater concern is a significant rebound in the merchandise trade deficit. As expected, much of the recent change in that index has been the result of reducing excess inventories of imported goods. This process ended in August. In addition, the volume, if not the price of petroleum is again rising. If exports continue to tread water, as they have done since March, a significant rebound in the merchandise trade balances could be anticipated. On the other hand, this rebound should be relatively short-lived.

Nevertheless, some deterioration in the trade deficit at a time when it appears that the Federal Reserve will not be raising interest rates probably will exert substantial pressure on the dollar versus other currencies. Thus, a test of the currency lows that were developed in December 1987 is not out of the question over the next several months. If the dollar's decline is too swift, the Federal Reserve may be forced to abandon its current wait-and-see attitude and force short-term interest rates upward to prevent a freefall in the dollar. Such an outcome is not anticipated at the present time, but it also cannot be ruled out.

Because of slight increases in nominal GNP and significant slowing in interest payments, adjusted profits grew more sharply than originally anticipated. This rapid growth in adjusted profits along with a period of stall in interest rates should lead to a relatively friendly stock market over the next several months. Of course, interest rates can reverse course as a result of currency problems. But conditions appeared to be relatively favorable for a significant increase in stock market prices into the beginning of next year. At that time, rising interest rates and slower economic growth should combine to cause the twin devils of falling profitability and rising interest rates. Thus, the rebound in stock values appears to be temporary and should be reversed early in 1989.

## Financial Markets

Household savings have fallen slightly in August following attempts to improve savings positions earlier. Some rebound in savings is anticipated over the next several months as consumers no longer will be forced to pay higher utility bills and as gasoline prices fall. On the other hand, stability in mortgage rates probably will increase housing expenditures. Thus, household net savings may only increase marginally in the months ahead.

The government deficit appears to be stalled at about $150 billion. Little change in that deficit appears to be developing next year. Sluggish growth in some local economies, especially the energy states, could lead to some budgetary crisis there. As a result, the consolidated budgets of both the federal and state and local governments could exhibit a slight increase in deficits.

As a result of the current stall in export activity, corporate activity also has begun slowing. Corporate profitability could fall, while inventories may rise slightly as demand remains modest. This could exert some upward pressures on interest rates from the corporate sector. However, corporations have handled their inventory problems well. As soon as sluggishness developed, industrial activity slowed. Thus, any stress borrowing by the corporate sector in the fourth quarter should be modest. In 1989, a slight rebound in activity is expected early in the year, which could lead to increased inventory holdings relative to cash flow gains. Then, when sales slow by mid-year, some involuntary inventory accumulations may develop. As a result, more significant borrowing needs by the corporate sector may surface.

When the domestic sector use and need for funds is consolidated, the result is no clear direction for interest rates in the fall and winter months followed by moderate increases in interest rate pressures in the spring and summer.

Of course, the influence of foreign capital flows will more significantly determine the direction of interest rates in this environment. The dollar now appears to be weakening slightly, which probably will reduce the desire of foreign investors to place funds in the United States at prevailing rates of interest. This could exert a slight upward tendency upon interest rates late in the fall and during the winter. If the dollar falls further as inflation reaccelerates in the spring, as expected, currency weakness could coincide with domestic pressures upon credit markets. The result could be a relatively significant increase in interest rates, but this almost certainly will be delayed until late next spring or summer.

During this period, the Federal Reserve probably will maintain stability in short-term interest rates. With inflationary pressures moving down and with only slight sector exertions toward higher borrowing costs, long-term interest rates might actually decline modestly. However, the interest rate pattern probably will reverse direction in the spring, even if the Federal Reserve does not respond. When inflationary pressures intensify in the spring, the Fed will respond and significantly higher short- and long-term interest rates then will develop.

Equity Markets - Although sluggish economic growth could shrink corporate profitability slightly, enough economic growth appears to be in place to prevent any serious erosion of profits. Furthermore, the decline in oil prices will reduce the inventory valuation adjustment. As a result, the quality of profits will improve slightly. A slight uptrend in genuine profits along with a decline in long-term interest rates almost always leads to some improvement in equity values. Thus, stock prices probably will rise through the remainder of this year and may also increase early next year. When inflation intensifies and interest rates increase by the spring, however, the equity markets should turn down. Moreover, tightening Federal Reserve activity followed by increasing economic sluggishness should lead to some weakness in equity values. Although the current anticipated rebound in equity values is the result of a stall in the upward direction of interest rates, interest-sensitive securities should not outperform the remainder of the market. After all, the longer-term trend for interest rates still appears to be upward. Rather, issues of companies in capital equipment, international commerce, and industrial materials should show most of the gains. Consumer issues probably will lag the market, at least until sluggishness becomes more apparent early next year.

The Dow Jones Index currently is expected to move above 2200 and may even approach 2300 before the end of this year. The market then probably will peak and begin declining before the spring of 1989.

## EMPLOYMENT

| | Payroll Employment | | Index of Hours Worked | | Household Civilian Employment | | Civilian Unemployment Rate | | Hourly Earnings Index | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 105281 | 105281 | 125.1 | 125.1 | 114713 | 114713 | 5.4 | 5.4 | 178.0 | 178.0 |
| May | 105502 | 105489 | 124.4 | 124.4 | 114195 | 114195 | 5.6 | 5.6 | 178.6 | 178.7 |
| June | 105848 | 106057 | 125.3 | 125.4 | 115018 | 115018 | 5.3 | 5.3 | 178.5 | 178.6 |
| July | 106075 | 106257 | 125.6 | 126.4 | 115127 | 115059 | 5.4 | 5.4 | 179.3 | 179.3 |
| August | 106295 | 106476 | 125.9 | 125.5 | 115226 | 115180 | 5.4 | 5.6 | 180.1 | 179.4 |
| September | 106560 | 106754* | 126.1 | 126.4* | 114974 | 115580* | 5.3 | 5.4* | 180.8 | 180.0* |
| October | 106753 | 106983 | 126.3 | 126.7 | 115543 | 115894 | 5.3 | 5.3 | 181.3 | 180.6 |
| November | 106900 | 107158 | 126.5 | 127.0 | 115881 | 116040 | 5.3 | 5.3 | 181.8 | 181.3 |
| December | 107048 | 107352 | 126.7 | 127.2 | 116220 | 116245 | 5.2 | 5.3 | 182.4 | 182.0 |
| January 1989 | 107309 | 107546 | 127.0 | 127.4 | 116489 | 116448 | 5.1 | 5.2 | 183.2 | 182.6 |
| February | 107627 | 107759 | 127.4 | 127.6 | 116750 | 116685 | 5.0 | 5.1 | 184.0 | 183.1 |
| March | 107948 | 107963 | 127.7 | 127.9 | 117012 | 116885 | 5.0 | 5.1 | 184.8 | 183.7 |
| April | 108062 | 108152 | 127.8 | 128.1 | 117143 | 117099 | 5.1 | 5.1 | 185.3 | 184.5 |
| May | 108174 | 108326 | 128.0 | 128.2 | 117292 | 117318 | 5.0 | 5.0 | 185.9 | 185.2 |
| June | 108290 | 108511 | 128.1 | 128.4 | 117453 | 117513 | 5.0 | 5.0 | 186.4 | 185.9 |
| July | 108483 | 108664 | 128.3 | 128.6 | 117638 | 117708 | 4.9 | 5.0 | 187.2 | 186.5 |
| August | 108754 | 108814 | 128.6 | 128.8 | 117837 | 117907 | 4.9 | 5.0 | 188.0 | 187.3 |
| September | 109021 | 108895 | 128.8 | 129.0 | 118030 | 118001 | 4.9 | 5.1 | 188.8 | 188.0 |

## PERSONAL INCOME

| | Personal Income | | Wage & Salary | | Personal Savings | | Disposable Income | | Personal Outlays | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 3.996 | 4.001 | 2.394 | 2.394 | 89.5 | 97.9 | 3.352 | 3.358 | 3.263 | 3.260 |
| May | 4.014 | 4.021 | 2.407 | 2.408 | 152.4 | 151.7 | 3.434 | 3.442 | 3.282 | 3.290 |
| June | 4.042 | 4.045 | 2.425 | 2.428 | 149.8 | 133.9 | 3.463 | 3.465 | 3.313 | 3.331 |
| July | 4.064 | 4.071 | 2.440 | 2.452 | 145.3 | 145.1 | 3.475 | 3.487 | 3.329 | 3.342 |
| August | 4.087 | 4.079 | 2.453 | 2.459 | 140.2 | 135.7 | 3.483 | 3.493 | 3.343 | 3.357 |
| September | 4.110 | 4.111* | 2.466 | 2.480* | 127.0 | 151.3* | 3.488 | 3.523* | 3.358 | 3.372* |
| October | 4.132 | 4.136 | 2.478 | 2.496 | 134.3 | 150.9 | 3.509 | 3.544 | 3.375 | 3.393 |
| November | 4.153 | 4.160 | 2.490 | 2.513 | 144.5 | 151.1 | 3.537 | 3.564 | 3.393 | 3.413 |
| December | 4.175 | 4.185 | 2.502 | 2.529 | 153.8 | 156.3 | 3.565 | 3.585 | 3.411 | 3.429 |
| January 1989 | 4.192 | 4.202 | 2.521 | 2.542 | 158.5 | 166.5 | 3.590 | 3.613 | 3.431 | 3.447 |
| February | 4.231 | 4.223 | 2.543 | 2.554 | 154.3 | 167.9 | 3.605 | 3.632 | 3.451 | 3.464 |
| March | 4.270 | 4.248 | 2.565 | 2.569 | 148.9 | 175.1 | 3.621 | 3.654 | 3.472 | 3.479 |
| April | 4.286 | 4.274 | 2.574 | 2.586 | 149.4 | 175.7 | 3.641 | 3.677 | 3.492 | 3.501 |
| May | 4.298 | 4.298 | 2.584 | 2.599 | 143.7 | 176.2 | 3.656 | 3.697 | 3.512 | 3.521 |
| June | 4.311 | 4.322 | 2.593 | 2.615 | 136.8 | 175.8 | 3.672 | 3.717 | 3.533 | 3.541 |
| July | 4.339 | 4.346 | 2.610 | 2.629 | 139.4 | 175.1 | 3.691 | 3.736 | 3.552 | 3.561 |
| August | 4.368 | 4.373 | 2.627 | 2.646 | 139.3 | 178.5 | 3.710 | 3.759 | 3.570 | 3.581 |
| September | 4.396 | 4.399 | 2.645 | 2.661 | 140.4 | 179.5 | 3.729 | 3.780 | 3.588 | 3.600 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSUMPTION

| | Personal Consumption | | Durables | | Nondurables | | Services | | Consumption Real | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 3164.2 | 3161.3 | 442.3 | 442.6 | 1025.7 | 1025.7 | 1696.2 | 1693.1 | 2565.9 | 2562.5 |
| May | 3182.7 | 3190.9 | 445.0 | 447.4 | 1030.3 | 1038.2 | 1707.5 | 1705.3 | 2569.7 | 2574.3 |
| June | 3213.5 | 3231.5 | 453.6 | 459.3 | 1034.8 | 1046.0 | 1725.2 | 1726.1 | 2587.1 | 2600.3 |
| July | 3226.4 | 3241.9 | 450.9 | 456.5 | 1039.2 | 1049.6 | 1736.3 | 1735.7 | 2587.3 | 2598.1 |
| August | 3244.5 | 3256.8 | 454.5 | 456.3 | 1043.1 | 1052.1 | 1746.9 | 1748.4 | 2593.5 | 2598.9* |
| September | 3255.4 | 3271.2* | 455.4 | 458.2* | 1047.3 | 1057.4* | 1752.7 | 1755.6* | 2593.9 | 2600.1 |
| October | 3273.2 | 3292.3 | 456.3 | 463.2 | 1051.5 | 1061.7 | 1765.4 | 1767.4 | 2597.8 | 2608.8 |
| November | 3290.8 | 3311.8 | 457.1 | 468.2 | 1056.1 | 1065.7 | 1777.6 | 1777.9 | 2601.4 | 2616.6 |
| December | 3308.7 | 3327.2 | 458.2 | 470.1 | 1061.0 | 1069.6 | 1789.5 | 1787.5 | 2605.3 | 2619.5 |
| January 1989 | 3328.2 | 3344.5 | 459.5 | 470.4 | 1066.4 | 1075.3 | 1802.3 | 1798.8 | 2610.4 | 2622.2 |
| February | 3347.5 | 3361.6 | 460.6 | 473.2 | 1071.1 | 1080.1 | 1815.8 | 1808.3 | 2613.2 | 2626.7 |
| March | 3365.4 | 3375.9 | 461.7 | 470.1 | 1075.8 | 1084.6 | 1827.9 | 1821.2 | 2614.9 | 2626.8 |
| April | 3385.7 | 3397.8 | 461.9 | 470.3 | 1083.4 | 1093.1 | 1840.4 | 1834.4 | 2616.5 | 2632.1 |
| May | 3405.8 | 3416.6 | 461.5 | 471.8 | 1091.2 | 1099.5 | 1853.1 | 1845.3 | 2617.8 | 2635.3 |
| June | 3429.5 | 3436.4 | 464.7 | 474.5 | 1099.0 | 1104.4 | 1865.8 | 1857.5 | 2621.9 | 2637.5 |
| July | 3444.4 | 3455.4 | 461.0 | 474.6 | 1104.5 | 1111.5 | 1878.9 | 1869.3 | 2623.3 | 2638.9 |
| August | 3464.3 | 3474.3 | 462.9 | 474.9 | 1109.9 | 1117.5 | 1891.5 | 1881.9 | 2628.5 | 2640.2 |
| September | 3482.0 | 3493.5 | 464.2 | 476.8 | 1114.4 | 1123.3 | 1903.4 | 1893.4 | 2629.9 | 2642.7 |

## RETAIL SALES

| | Retail Sales | | Non-Auto Durables | | Auto (Million Units) | | Nondurable Sales | | Auto Sales | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 131.72 | 131.72 | 20.85 | 20.85 | 10.5 | 10.5 | 81.30 | 81.30 | 29.57 | 29.57 |
| May | 132.05 | 132.83 | 20.95 | 20.93 | 10.3 | 10.3 | 81.77 | 82.42 | 29.33 | 29.49 |
| June | 132.77 | 133.62 | 20.85 | 21.09 | 10.6 | 10.6 | 82.23 | 82.91 | 29.69 | 29.62 |
| July | 132.82 | 133.80 | 20.91 | 20.78 | 10.4 | 10.8 | 82.58 | 83.35 | 29.33 | 29.67 |
| August | 133.73 | 133.47 | 20.68 | 20.78 | 10.8 | 10.6 | 82.89 | 83.55 | 30.16 | 29.14 |
| September | 134.06 | 134.05* | 20.64 | 20.83* | 10.8 | 10.7 | 83.22 | 83.92* | 30.20 | 29.30* |
| October | 134.40 | 134.93 | 20.88 | 20.89 | 10.5 | 10.4* | 83.56 | 84.26 | 29.96 | 29.78 |
| November | 134.85 | 135.76 | 20.79 | 21.07 | 10.6 | 10.6 | 83.92 | 84.53 | 30.14 | 30.16 |
| December | 135.36 | 136.32 | 20.75 | 21.02 | 10.7 | 10.7 | 84.31 | 84.89 | 30.30 | 30.41 |
| January 1989 | 135.94 | 136.80 | 21.21 | 21.05 | 10.5 | 10.7 | 84.74 | 85.34 | 29.99 | 30.41 |
| February | 136.44 | 137.49 | 21.03 | 21.11 | 10.6 | 10.8 | 85.12 | 85.72 | 30.29 | 30.66 |
| March | 136.93 | 137.51 | 21.06 | 21.20 | 10.6 | 10.6 | 85.49 | 86.08 | 30.38 | 30.23 |
| April | 137.56 | 138.20 | 21.38 | 21.36 | 10.5 | 10.5 | 86.09 | 86.75 | 30.09 | 30.09 |
| May | 138.13 | 138.88 | 21.49 | 21.48 | 10.4 | 10.5 | 86.71 | 87.26 | 29.93 | 30.14 |
| June | 139.11 | 139.56 | 21.57 | 21.56 | 10.5 | 10.6 | 87.33 | 87.65 | 30.21 | 30.35 |
| July | 139.14 | 140.13 | 21.55 | 21.50 | 10.1 | 10.6 | 87.77 | 88.21 | 29.82 | 30.42 |
| August | 139.78 | 140.65 | 21.57 | 21.59 | 10.2 | 10.5 | 88.20 | 88.69 | 30.01 | 30.37 |
| September | 140.28 | 141.31 | 21.79 | 21.72 | 10.1 | 10.5 | 88.56 | 89.15 | 29.93 | 30.44 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## CONSTRUCTION

| | Housing Starts | | Single Family Starts | | Housing Permits | | Construction Expenditures (Current) | | Construction Expenditures (Real) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 1.584 | 1.584 | 1.093 | 1.093 | 1.449 | 1.449 | 402.7 | 399.2 | 348.2 | 344.3 |
| May | 1.384 | 1.393 | 0.996 | 1.004 | 1.436 | 1.436 | 407.1 | 398.5 | 350.2 | 345.3 |
| June | 1.454 | 1.465 | 1.098 | 1.092 | 1.489 | 1.493 | 408.5 | 395.7 | 350.6 | 342.8 |
| July | 1.526 | 1.485 | 1.105 | 1.064 | 1.443 | 1.420 | 408.8 | 398.3 | 350.3 | 343.4 |
| August | 1.481 | 1.436 | 1.073 | 1.086 | 1.392 | 1.447 | 409.0 | 396.1 | 349.9 | 341.7 |
| September | 1.448 | 1.469* | 1.050 | 1.093* | 1.365 | 1.411* | 408.6 | 400.0* | 349.2 | 344.2* |
| October | 1.459 | 1.463 | 1.046 | 1.075 | 1.372 | 1.384 | 410.4 | 400.8 | 349.6 | 344.0 |
| November | 1.465 | 1.456 | 1.040 | 1.082 | 1.380 | 1.375 | 412.4 | 402.6 | 350.1 | 345.0 |
| December | 1.462 | 1.439 | 1.036 | 1.055 | 1.382 | 1.356 | 413.9 | 402.0 | 350.2 | 343.6 |
| January 1989 | 1.458 | 1.464 | 1.035 | 1.063 | 1.365 | 1.385 | 414.4 | 404.2 | 349.7 | 344.6 |
| February | 1.450 | 1.472 | 1.040 | 1.084 | 1.350 | 1.392 | 416.8 | 406.1 | 350.8 | 345.3 |
| March | 1.446 | 1.505 | 1.031 | 1.089 | 1.354 | 1.406 | 418.4 | 410.8 | 351.0 | 348.4 |
| April | 1.440 | 1.458 | 1.026 | 1.052 | 1.343 | 1.392 | 420.2 | 411.7 | 351.6 | 348.0 |
| May | 1.443 | 1.439 | 1.020 | 1.028 | 1.345 | 1.376 | 420.6 | 410.6 | 351.1 | 345.9 |
| June | 1.437 | 1.397 | 1.014 | 1.009 | 1.350 | 1.352 | 420.3 | 407.7 | 349.7 | 342.3 |
| July | 1.409 | 1.387 | 1.001 | 0.986 | 1.317 | 1.345 | 422.5 | 407.4 | 350.3 | 341.2 |
| August | 1.402 | 1.394 | 0.996 | 0.972 | 1.296 | 1.348 | 423.9 | 406.5 | 350.3 | 339.3 |
| September | 1.396 | 1.396 | 0.990 | 0.968 | 1.301 | 1.369 | 425.3 | 409.6 | 350.6 | 340.8 |

| | Non-Residential | | Public Construction | | Residential Construction | |
|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 128.3 | 126.3 | 79.1 | 77.7 | 195.3 | 192.2 |
| May | 134.8 | 129.8 | 78.9 | 78.3 | 193.4 | 190.4 |
| June | 135.9 | 129.6 | 79.4 | 78.0 | 193.2 | 188.1 |
| July | 136.4 | 129.7 | 78.9 | 79.2 | 193.5 | 189.4 |
| August | 136.9 | 127.8 | 78.8 | 77.5 | 193.3 | 190.8 |
| September | 136.5 | 129.4* | 78.8 | 78.8* | 193.3 | 191.8* |
| October | 137.0 | 129.9 | 79.0 | 79.1 | 194.4 | 191.8 |
| November | 137.4 | 130.5 | 79.2 | 79.0 | 195.8 | 193.1 |
| December | 137.8 | 130.1 | 79.2 | 79.2 | 196.9 | 192.7 |
| January 1989 | 138.6 | 131.4 | 79.6 | 79.5 | 196.2 | 193.3 |
| February | 139.8 | 131.8 | 80.1 | 79.8 | 196.9 | 194.5 |
| March | 141.1 | 132.6 | 80.5 | 80.3 | 196.8 | 197.9 |
| April | 142.0 | 133.3 | 80.9 | 80.6 | 197.3 | 197.8 |
| May | 141.5 | 132.1 | 81.2 | 81.0 | 197.9 | 197.5 |
| June | 140.3 | 132.4 | 81.5 | 81.5 | 198.5 | 193.8 |
| July | 142.4 | 133.5 | 82.1 | 81.8 | 198.0 | 192.1 |
| August | 143.3 | 133.2 | 82.8 | 82.1 | 197.8 | 191.2 |
| September | 144.2 | 134.5 | 83.5 | 82.8 | 197.6 | 192.3 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# BUSINESS ACTIVITY

| | Manufacturers' Inventories | | Durable Goods Orders | | Non-Defense Capital Goods Orders | | Non-Defense Capital Shipments | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 340.9 | 340.9 | 117.27 | 117.27 | 33.49 | 33.49 | 31.07 | 31.07 |
| May | 343.1 | 340.1 | 115.10 | 115.37 | 31.50 | 31.52 | 31.76 | 31.67 |
| June | 344.9 | 342.0 | 125.23 | 125.44 | 34.57 | 35.46 | 31.98 | 31.82 |
| July | 346.3 | 343.8 | 118.46 | 116.11 | 31.86 | 36.21 | 32.07 | 32.01 |
| August | 348.8 | 345.6 | 119.63 | 123.02 | 32.15 | 38.51 | 32.17 | 32.47 |
| September | 350.2 | 347.3* | 120.15 | 122.41* | 32.36 | 37.16* | 32.26 | 32.65* |
| October | 352.9 | 348.8 | 119.11 | 120.27 | 32.53 | 36.45 | 32.53 | 32.93 |
| November | 355.1 | 350.3 | 120.43 | 119.95 | 32.93 | 36.29 | 32.67 | 33.11 |
| December | 357.3 | 351.9 | 121.62 | 120.53 | 33.46 | 36.71 | 32.82 | 33.26 |
| January 1989 | 359.5 | 353.6 | 119.85 | 120.65 | 32.55 | 36.60 | 33.02 | 33.11 |
| February | 361.2 | 355.6 | 120.36 | 119.04 | 32.93 | 35.48 | 33.20 | 33.24 |
| March | 363.0 | 357.2 | 121.45 | 119.11 | 33.14 | 35.69 | 33.38 | 33.39 |
| April | 365.6 | 358.9 | 121.89 | 118.86 | 33.48 | 35.78 | 33.46 | 33.51 |
| May | 368.1 | 360.9 | 122.53 | 119.24 | 33.65 | 35.26 | 33.55 | 33.50 |
| June | 370.6 | 363.3 | 122.76 | 119.01 | 33.92 | 34.41 | 33.63 | 33.59 |
| July | 372.3 | 365.5 | 122.50 | 118.43 | 33.98 | 34.06 | 33.70 | 33.68 |
| August | 374.5 | 367.8 | 121.89 | 120.26 | 33.91 | 34.13 | 33.83 | 33.79 |
| September | 376.8 | 369.7 | 123.26 | 120.14 | 33.84 | 33.96 | 33.96 | 33.90 |

| | Business Inventories | | Defense Shipments | | Industrial Production | | Capacity Utilization | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 723.7 | 723.7 | 8.47 | 8.47 | 135.4 | 135.4 | 82.6 | 82.7 |
| May | 728.4 | 725.8 | 8.37 | 8.38 | 136.1 | 136.1 | 82.9 | 82.9 |
| June | 732.0 | 731.5 | 9.07 | 8.72 | 136.6 | 136.5 | 83.1 | 83.0 |
| July | 736.1 | 733.7 | 8.94 | 8.66 | 137.3 | 137.9 | 83.3 | 83.6 |
| August | 740.3 | 736.6* | 8.63 | 9.03 | 137.0 | 138.2 | 83.0 | 83.7 |
| September | 744.6 | 740.4 | 8.65 | 8.94* | 137.6 | 138.5* | 83.2 | 83.7* |
| October | 748.7 | 743.7 | 8.70 | 8.79 | 138.2 | 138.8 | 83.4 | 83.8 |
| November | 753.5 | 748.9 | 8.75 | 8.85 | 138.6 | 139.3 | 83.5 | 84.0 |
| December | 758.1 | 752.8 | 8.75 | 8.92 | 139.0 | 139.6 | 83.7 | 84.0 |
| January 1989 | 761.9 | 756.9 | 8.83 | 9.03 | 139.5 | 139.9 | 83.8 | 84.1 |
| February | 765.7 | 761.3 | 8.89 | 9.08 | 140.0 | 140.1 | 83.9 | 84.1 |
| March | 768.5 | 765.2 | 8.95 | 9.15 | 140.5 | 140.5 | 84.1 | 84.3 |
| April | 773.6 | 768.9 | 9.15 | 9.13 | 141.1 | 140.9 | 84.2 | 84.4 |
| May | 781.0 | 773.5 | 9.02 | 9.06 | 141.3 | 141.1 | 84.2 | 84.4 |
| June | 788.5 | 779.6 | 8.96 | 9.11 | 141.5 | 141.3 | 84.1 | 84.3 |
| July | 793.4 | 784.4 | 9.11 | 9.15 | 141.6 | 141.5 | 84.0 | 84.3 |
| August | 796.0 | 789.2 | 9.19 | 9.22 | 141.7 | 141.6 | 83.9 | 84.2 |
| September | 798.5 | 795.3 | 9.26 | 9.27 | 141.6 | 141.7 | 83.7 | 84.0 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

# PRICES

| | CPI-U (seasonally adjusted) | | PPI Finished Goods (seasonally adjusted) | | PPI-Industrial Commodities (unadjusted) | | Estimated GNP Deflator | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 117.2 | 117.2 | 107.0 | 106.9 | 105.6 | 105.6 | 120.1 | 120.5 |
| May | 117.5 | 117.6 | 107.4 | 107.4 | 106.1 | 106.1 | 120.6 | 121.0 |
| June | 117.9 | 118.0 | 107.8 | 107.8 | 106.5 | 106.5 | 121.0 | 121.4 |
| July | 118.3 | 118.5 | 108.2 | 108.3 | 106.9 | 106.7 | 121.4 | 121.9 |
| August | 118.8 | 119.0 | 108.7 | 109.1 | 107.3 | 107.1 | 121.8 | 122.4 |
| September | 119.3 | 119.5* | 109.2 | 109.5* | 106.3 | 107.0 | 122.3 | 122.8 |
| October | 119.7 | 119.9 | 109.6 | 109.8 | 107.5 | 108.3 | 122.6 | 123.1 |
| November | 120.1 | 120.2 | 110.0 | 110.0 | 107.7 | 108.0 | 122.9 | 123.4 |
| December | 120.5 | 120.6 | 110.3 | 110.2 | 107.7 | 108.2 | 123.2 | 123.8 |
| January 1989 | 121.0 | 121.1 | 110.8 | 110.7 | 108.3 | 108.5 | 123.7 | 124.3 |
| February | 121.6 | 121.5 | 111.3 | 111.0 | 108.9 | 108.8 | 124.3 | 124.6 |
| March | 122.0 | 121.9 | 111.6 | 111.3 | 109.5 | 109.2 | 124.9 | 125.1 |
| April | 122.7 | 122.4 | 112.2 | 111.7 | 110.1 | 109.5 | 125.4 | 125.6 |
| May | 123.4 | 123.0 | 112.8 | 112.1 | 110.7 | 110.0 | 125.8 | 126.1 |
| June | 124.1 | 123.7 | 113.4 | 112.5 | 111.3 | 110.4 | 126.2 | 126.6 |
| July | 124.6 | 124.3 | 113.8 | 113.0 | 112.0 | 110.7 | 126.7 | 127.2 |
| August | 125.2 | 125.0 | 114.3 | 113.6 | 112.5 | 111.2 | 127.1 | 127.7 |
| September | 125.8 | 125.6 | 114.8 | 114.1 | 111.6 | 111.6 | 127.5 | 128.3 |

| | Consumption Deflator | | Consumer Durables | | Consumer Nondurables | | Consumer Services | | Implicit Construction Deflator | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 123.3 | 123.4 | 109.3 | 109.3 | 115.5 | 115.5 | 133.3 | 133.4 | 115.6 | 115.1 |
| May | 123.9 | 124.0 | 109.4 | 109.5 | 116.1 | 116.2 | 133.8 | 134.1 | 116.2 | 115.4 |
| June | 124.2 | 124.3 | 109.9 | 109.9 | 116.4 | 116.3 | 134.3 | 134.5 | 116.5 | 115.4 |
| July | 124.7 | 124.8 | 110.1 | 110.2 | 116.8 | 116.9 | 134.8 | 135.0 | 116.7 | 116.0 |
| August | 125.1 | 125.3* | 110.3 | 110.4* | 117.1 | 117.4* | 135.4 | 135.6* | 116.9 | 115.9 |
| September | 125.5 | 125.8 | 110.4 | 110.6 | 117.4 | 117.9 | 136.0 | 136.2 | 117.0 | 116.2* |
| October | 126.0 | 126.2 | 110.9 | 110.7 | 117.9 | 118.3 | 136.5 | 136.7 | 117.4 | 116.5 |
| November | 126.5 | 126.6 | 111.2 | 111.1 | 118.4 | 118.5 | 136.9 | 137.2 | 117.8 | 116.7 |
| December | 127.0 | 127.0 | 111.5 | 111.4 | 118.8 | 118.8 | 137.3 | 137.8 | 118.2 | 117.0 |
| January 1989 | 127.5 | 127.6 | 111.7 | 111.7 | 119.5 | 119.3 | 138.1 | 138.4 | 118.5 | 117.3 |
| February | 128.1 | 128.0 | 111.9 | 112.0 | 120.0 | 119.7 | 138.8 | 138.9 | 118.8 | 117.6 |
| March | 128.7 | 128.5 | 112.1 | 112.2 | 120.5 | 120.2 | 139.5 | 139.5 | 119.2 | 117.9 |
| April | 129.4 | 129.1 | 112.4 | 112.5 | 121.4 | 120.7 | 140.1 | 140.2 | 119.5 | 118.3 |
| May | 130.1 | 129.7 | 112.7 | 112.8 | 122.5 | 121.3 | 140.7 | 140.8 | 119.8 | 118.7 |
| June | 130.8 | 130.3 | 113.0 | 113.1 | 123.6 | 122.0 | 141.3 | 141.5 | 120.2 | 119.1 |
| July | 131.3 | 130.9 | 113.3 | 113.4 | 123.8 | 122.7 | 142.0 | 142.2 | 120.6 | 119.4 |
| August | 131.8 | 131.6 | 113.6 | 113.7 | 124.0 | 123.4 | 142.7 | 142.9 | 121.0 | 119.8 |
| September | 132.4 | 132.2 | 113.9 | 114.0 | 124.2 | 124.0 | 143.4 | 143.6 | 121.3 | 120.2 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

## MISCELLANEOUS

| | Merchandise Trade Balance | | Leading Indicators | | Estimated GNP | | Estimated GNP (1982 $) | | IVA (annual rate) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | -10.27 | -10.27 | 192.8 | 192.5 | 4778 | 4783 | 3979 | 3969 | -18.3 | -23.3 |
| May | -10.93 | -9.97 | 192.6 | 191.1 | 4806 | 4822 | 3985 | 3985 | -19.6 | -29.6 |
| June | -10.10 | -13.26 | 194.9 | 193.7 | 4830 | 4854 | 3995 | 3998 | -29.1 | -34.1 |
| July | -10.76 | -9.53 | 194.0 | 192.7 | 4869 | 4876 | 4011 | 4000 | -26.2 | -29.2 |
| August | -10.59 | -10.80* | 194.5 | 193.4 | 4885 | 4901 | 4011 | 4004 | -23.0 | -25.6 |
| September | -10.42 | -11.93 | 195.3 | 193.6* | 4908 | 4921 | 4013 | 4008 | -20.1 | -23.2 |
| October | -10.36 | -11.56 | 194.7 | 194.2 | 4934 | 4946 | 4024 | 4018 | -20.0 | -17.8 |
| November | -10.30 | -11.11 | 194.0 | 194.4 | 4965 | 4974 | 4040 | 4031 | -18.6 | -14.3 |
| December | -10.24 | -10.68 | 193.8 | 193.7 | 4997 | 4993 | 4056 | 4033 | -18.3 | -12.8 |
| January 1989 | -9.56 | -9.43 | 193.9 | 194.1 | 5034 | 5032 | 4070 | 4048 | -19.7 | -13.9 |
| February | -9.27 | -9.27 | 192.6 | 194.0 | 5065 | 5075 | 4075 | 4073 | -21.2 | -14.6 |
| March | -8.86 | -8.53 | 192.5 | 194.4 | 5097 | 5106 | 4081 | 4082 | -22.8 | -10.3 |
| April | -8.96 | -8.50 | 193.1 | 193.6 | 5128 | 5130 | 4089 | 4084 | -27.3 | -14.9 |
| May | -8.94 | -8.96 | 193.6 | 193.1 | 5159 | 5153 | 4101 | 4087 | -30.5 | -16.1 |
| June | -8.90 | -9.28 | 193.0 | 193.0 | 5189 | 5188 | 4112 | 4098 | -33.1 | -18.4 |
| July | -8.98 | -9.11 | 192.5 | 193.3 | 5220 | 5210 | 4120 | 4096 | -31.5 | -20.1 |
| August | -9.15 | -8.45 | 192.9 | 192.6 | 5241 | 5240 | 4124 | 4103 | -30.0 | -21.9 |
| September | -8.92 | -8.14 | 192.7 | 192.5 | 5262 | 5285 | 4127 | 4119 | -28.5 | -24.4 |

| | Currency Index | | Adjusted Profits | | 30-Year Government Bonds | | New York Composite | |
|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore | C.E. | Fore. | C.E. |
| April 1988 | 88.95 | 88.95 | 181.4 | 183.4 | 8.95 | 8.95 | 148.46 | 148.46 |
| May | 89.74 | 89.74 | 180.9 | 183.9 | 9.23 | 9.23 | 144.99 | 144.99 |
| June | 92.58 | 92.58 | 182.5 | 196.4* | 9.00 | 9.00 | 152.72 | 152.72 |
| July | 95.65 | 96.53 | 176.5 | 198.5 | 9.23 | 9.14 | 150.65 | 152.12 |
| August | 96.20 | 98.29 | 170.4 | 192.6 | 9.25 | 9.32 | 151.93 | 149.30 |
| September | 96.86 | 97.91 | 169.3 | 190.3 | 9.11 | 9.06 | 153.24 | 154.62* |
| October | 93.27 | 96.21 | 170.5 | 193.4 | 9.22 | 8.83 | 153.06 | 161.24 |
| November | 89.42 | 94.25 | 173.3 | 198.8 | 9.53 | 8.74 | 151.47 | 165.45 |
| December | 92.41 | 91.67 | 176.2 | 200.4 | 9.86 | 8.68 | 150.16 | 167.96 |
| January 1989 | 93.12 | 91.28 | 175.0 | 202.6 | 10.04 | 8.70 | 149.23 | 169.44 |
| February | 93.76 | 90.24 | 172.9 | 204.5 | 10.16 | 8.81 | 147.65 | 167.88 |
| March | 93.62 | 91.65 | 170.8 | 203.6 | 10.31 | 8.78 | 146.16 | 168.71 |
| April | 93.74 | 92.89 | 169.5 | 202.1 | 10.50 | 8.84 | 142.29 | 168.31 |
| May | 93.91 | 94.26 | 169.0 | 201.1 | 10.43 | 8.99 | 139.63 | 164.68 |
| June | 93.75 | 95.83 | 170.3 | 194.6 | 10.59 | 9.10 | 139.98 | 156.06 |
| July | 94.83 | 95.21 | 171.5 | 196.3 | 10.65 | 9.17 | 140.42 | 156.22 |
| August | 96.27 | 94.43 | 171.1 | 196.5 | 10.61 | 9.38 | 143.57 | 152.88 |
| September | 93.60 | 93.82 | 171.9 | 192.0 | 10.52 | 9.45 | 146.71 | 150.49 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

# FINANCIAL MARKETS

| | Monetary Base | | M1 | | M2 | | Federal Funds | | T-Bills (6 Mos.) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 275.8 | 275.8 | 770.2 | 770.1 | 2991.9 | 2990.9 | 6.87 | 6.87 | 6.21 | 6.21 |
| May | 276.7 | 276.7 | 770.1 | 770.2 | 3003.7 | 3002.2 | 7.09 | 7.09 | 6.56 | 6.56 |
| June | 277.8 | 277.8 | 776.4 | 776.5 | 3018.1 | 3016.5 | 7.51 | 7.51 | 6.71 | 6.71 |
| July | 280.3 | 280.8 | 783.5 | 782.4 | 3028.9 | 3026.1 | 7.64 | 7.75 | 7.05 | 6.99 |
| August | 282.3 | 281.8 | 789.6 | 782.5 | 3043.5 | 3032.0 | 7.81 | 8.01 | 7.16 | 7.36 |
| September | 284.4 | 282.5* | 795.5 | 784.0* | 3058.2 | 3036.8* | 7.96 | 8.19 | 7.27 | 7.43 |
| October | 286.0 | 283.8 | 799.4 | 787.0 | 3076.3 | 3048.4 | 8.10 | 8.15* | 7.36 | 7.40* |
| November | 287.2 | 285.4 | 802.6 | 791.4 | 3094.0 | 3062.8 | 8.16 | 8.12 | 7.42 | 7.36 |
| December | 288.4 | 286.7 | 803.7 | 795.3 | 3112.5 | 3077.9 | 8.22 | 8.18 | 7.48 | 7.35 |
| January 1989 | 290.3 | 288.0 | 808.5 | 798.6 | 3133.4 | 3093.3 | 8.20 | 8.23 | 7.40 | 7.39 |
| February | 292.5 | 289.1 | 814.9 | 801.4 | 3151.2 | 3108.8 | 8.23 | 8.27 | 7.35 | 7.43 |
| March | 294.6 | 290.2 | 821.3 | 805.3 | 3169.4 | 3123.9 | 8.26 | 8.20 | 7.36 | 7.40 |
| April | 296.3 | 291.5 | 824.6 | 808.6 | 3185.2 | 3139.5 | 8.53 | 8.46 | 7.64 | 7.55 |
| May | 297.6 | 292.7 | 827.0 | 811.9 | 3207.2 | 3155.2 | 8.86 | 8.55 | 8.03 | 7.62 |
| June | 298.9 | 294.0 | 829.5 | 815.3 | 3228.9 | 3170.9 | 9.19 | 8.69 | 8.30 | 7.81 |
| July | 300.5 | 295.5 | 835.1 | 819.4 | 3246.5 | 3189.9 | 9.25 | 8.75 | 8.20 | 7.85 |
| August | 302.7 | 297.1 | 840.0 | 823.9 | 3262.7 | 3209.0 | 9.11 | 8.83 | 7.92 | 7.88 |
| September | 304.9 | 298.8 | 844.8 | 828.3 | 3278.8 | 3228.3 | 9.05 | 8.86 | 7.63 | 7.91 |

| | Aaa (Seasoned) | | Municipals (Bond Buyer) | | (3 Month) Commercial Paper | | 90 Day CD's | | Prime Rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. | Fore. | C.E. |
| April 1988 | 9.67 | 9.67 | 7.81 | 7.81 | 6.86 | 6.86 | 6.92 | 6.92 | 8.50 | 8.50 |
| May | 9.90 | 9.90 | 7.91 | 7.91 | 7.19 | 7.19 | 7.24 | 7.24 | 8.84 | 8.84 |
| June | 9.86 | 9.86 | 7.78 | 7.78 | 7.49 | 7.49 | 7.51 | 7.51 | 9.00 | 9.00 |
| July | 10.02 | 9.96 | 7.88 | 7.76 | 7.73 | 7.82 | 7.86 | 7.94 | 9.42 | 9.29 |
| August | 10.08 | 10.11 | 7.93 | 7.79 | 7.92 | 8.26 | 8.03 | 8.35 | 9.50 | 9.84 |
| September | 10.15 | 9.82 | 7.96 | 7.66 | 8.05 | 8.17 | 8.14 | 8.23 | 9.50 | 10.00 |
| October | 10.20 | 9.61* | 8.01 | 7.60* | 8.15 | 8.12* | 8.26 | 8.22* | 9.56 | 10.00* |
| November | 10.23 | 9.50 | 8.00 | 7.51 | 8.22 | 8.05 | 8.35 | 8.09 | 10.00 | 10.00 |
| December | 10.26 | 9.46 | 8.03 | 7.44 | 8.30 | 8.08 | 8.39 | 8.15 | 10.00 | 10.00 |
| January 1989 | 10.39 | 9.50 | 8.15 | 7.48 | 8.30 | 8.15 | 8.43 | 8.23 | 10.00 | 10.00 |
| February | 10.46 | 9.59 | 8.20 | 7.58 | 8.34 | 8.25 | 8.45 | 8.34 | 10.00 | 10.00 |
| March | 10.50 | 9.48 | 8.23 | 7.50 | 8.40 | 8.22 | 8.51 | 8.30 | 10.00 | 10.00 |
| April | 10.78 | 9.52 | 8.42 | 7.53 | 8.59 | 8.46 | 8.62 | 8.53 | 10.00 | 10.26 |
| May | 10.93 | 9.73 | 8.59 | 7.69 | 8.82 | 8.59 | 8.93 | 8.65 | 10.46 | 10.50 |
| June | 11.10 | 9.80 | 8.66 | 7.72 | 9.15 | 8.75 | 9.23 | 8.84 | 10.95 | 10.50 |
| July | 11.01 | 9.87 | 8.57 | 7.76 | 9.26 | 8.84 | 9.30 | 8.93 | 11.00 | 10.73 |
| August | 10.90 | 10.01 | 8.43 | 7.95 | 9.10 | 8.80 | 9.16 | 8.91 | 10.87 | 10.75 |
| September | 10.78 | 10.09 | 8.35 | 7.98 | 8.98 | 8.75 | 9.05 | 8.86 | 10.50 | 10.75 |

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.